FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS

1999 Annual Report

FOUR SEASONS

Hotels and Resorts

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Hotels and Resorts

Our Goals, Our Beliefs, Our Principles

Who we are

We have chosen to specialize within the hospitality industry, by offering only experiences of exceptional quality. Our objective is to be recognized as the company that manages the finest hotels, resorts, residence clubs and other residential projects wherever we locate.

We create properties of enduring value using superior design and finishes, and support them with a deeply instilled ethic of personal service. Doing so allows Four Seasons to satisfy the needs and tastes of our discriminating customers, and to maintain our position as the world's premier luxury hospitality company.

What we believe

Our greatest asset, and the key to our success, is our people.

We believe that each of us needs a sense of dignity, pride and satisfaction in what we do. Because satisfying our guests depends on the united efforts of many, we are most effective when we work together cooperatively, respecting each other's contribution and importance.

How we behave

We demonstrate our beliefs most meaningfully in the way we treat each other and by the example we set for one another. In all our interactions with our guests, business associates and colleagues, we seek to deal with others as we would have them deal with us.

How we succeed

We succeed when every decision is based on a clear understanding of and belief in what we do and when we couple this conviction with sound financial planning. We expect to achieve a fair and reasonable profit to ensure the prosperity of the company, and to offer long-term benefits to our hotel owners, our shareholders, our customers and our employees.

Table of Contents

Financial Highlights

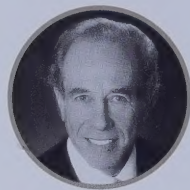
(In millions of Canadian dollars except per share amounts)	**1999**	1998	1997
Revenues under management	**$ 2,370.2**	$ 2,270.7	$ 2,119.4
EBITDA(1)	**$ 97.5**	$ 88.0	$ 79.1
Net earnings	**$ 86.5**	$ 69.7	$ 40.8
Earnings per share	**$ 2.52**	$ 2.06	$ 1.24
Cash provided by operations	**$ 106.8**	$ 75.8	$ 64.8
Long-term debt	**$ 187.1**	$ 165.0	$ 140.2
Cash reserves	**$ 222.2**	$ 17.6	$ 25.3

(1) Earnings before other operating items, interest and taxes.

Forward-looking Statements

When used in the Annual Information Form, the Message to Our Shareholders, and the Management Committee Round Table, the words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, projected or implied, including, without limitation: competition within each of the Corporation's business segments, the balance between supply of and demand for hotel rooms and interval or fractional ownership units, the Corporation's continued ability to obtain new operating contracts on advantageous terms, the Corporation's relations with current and potential hotel owners and clients, the effect of international, national and regional economic conditions, and the availability of capital to fund further investments in the Corporation's businesses. Given these uncertainties, readers are cautioned not to place undue reliance on these statements. The Corporation also undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

All amounts referred to in this document are in Canadian dollars unless otherwise noted.



"Ours is a strategy for growth that is based on our fundamental beliefs: that quality has inherent value; that sound business is rooted in trustworthiness; and that most people, when fairly treated, respond in kind."

Isadore Sharp
Chairman and Chief Executive Officer

In the pages that follow, you will read more about what we believe was a most successful year for Four Seasons Hotels and Resorts. It was a year of continued growth in earnings and improvements in profitability, as net earnings increased by over 24% to over $86 million. We also opened more hotels in a single year than ever before in our nearly 40-year history, adding important new properties in Las Vegas; Punta Mita, Mexico; Scottsdale; Canary Wharf; and Paris to the Four Seasons portfolio.

But in reflecting on the achievements of 1999, we at Four Seasons believe that it was much more than another good year. For us, it was the culmination of a series of successful years, all based on a strategy that now enables us to set new goals for the future—goals that would have been inconceivable two decades ago when the essential elements of our strategy first came together.

Ours is a strategy for growth that is based on our fundamental beliefs: that quality has inherent value; that sound business is rooted in trustworthiness; and that most people, when treated fairly, respond in kind. These core values have guided the key decisions that shaped our business decisions in the years gone by.

First, we decided to develop only mid-sized hotels of exceptional quality, which has resulted in our current portfolio of irreplaceable buildings in irreplaceable locations. Second, we decided to focus on customer satisfaction, which led us early on to redefine luxury, not in the form of buildings and decor, but as consistent, intuitive, personalized service.

This meant giving high priority to the morale of our employees, so our third major decision was to create and adhere to a set of core values that determine how we should act toward each other, whether we be co-workers, business partners, customers or shareholders. In essence, we committed ourselves to treating all others as we ourselves would want to be treated. Written credos were common decades ago, but they usually became quite meaningless. So we didn't talk about ours, we lived it and enforced it. Within a few years, we had a complete managerial consensus on what is now known as the Four Seasons corporate culture.

The fourth key decision was a low-risk financial strategy, shifting our focus from investments in hotel ownership to investment in hotel management, and capitalizing on what is now known as the Four Seasons brand name. This also meant reallocating our corporate assets into what were considered at that time to be costly procedures for hiring, training and motivating our employees, who have always been and continue to be the custodians of the brand.

Our execution of these strategies has brought us where we are today. And looking forward, we believe that it is exactly these attributes that will help us achieve our next goal, which is to be recognized as what the world calls a "blue chip" company, one of the stellar mainstays of the international marketplace.

Given our size, such a goal may seem presumptuous, but we believe that the Four Seasons situation is unique. We view blue chip status as a position that is defined not by size, but by what a blue chip company truly represents: a global brand name, a dominant market position and a sustainable competitive advantage. At Four Seasons, we believe that the key performance drivers—those that are often most proclaimed to be the priorities and practices that lead to outstanding business success—are those that we have been focusing on, expounding upon, and perfecting for the better part of the last three decades.

Already, wherever we are around the world, our brand commands a premium price. We dominate our industry sector as the best of the blue chips dominate theirs. And every year our brand recognition rises and spreads as the pace of our global market penetration mounts: over the past year, five new hotels, and over the next three years, over three times that many, with each new property in each new location extending the drawing power of the Four Seasons brand name and reinforcing our competitive advantage.

So as we look to the years ahead, our next goal is to become recognized as a "blue chip" company, as a market leader, for all of the things that such a label represents. We are in the strongest financial position in our history, with a growing brand name that stands for service excellence the world over and a committed work force that has almost doubled in the past decade, thereby expanding the base from which the Four Seasons organization can now grow.

We are very optimistic about the future. As a leader in the luxury segment of the world's fastest growing industry, we look forward to capitalizing on the opportunities available to extend the reach of the Four Seasons brand and experience. We believe that our strong cash flow position and our proven operational capabilities should help to ensure that Four Seasons is a candidate for all appropriate luxury management opportunities, thus allowing us to successfully expand our portfolio of hotel properties and residential products around the world. At the same time, we will remain committed to the values that have brought us where we are today, with the people who have contributed to this success. As we have said over the years, it is these people who share our core values and who are committed to sustaining them, and it is these same people who are in the best position to ensure the operational and financial success of Four Seasons as we continue our program of focused global growth in the years ahead.

Isadore Sharp
Chairman and Chief Executive Officer

Four Seasons Management Committee consists of:

Isadore Sharp
Chairman and Chief Executive Officer

H. Roger Garland
Vice Chairman

Wolf H. Hengst
President and Chief Operations Officer

Kathleen Taylor
President and Chief Corporate Officer

Douglas L. Ludwig
Executive Vice President, Chief Financial Officer and Treasurer

Barbara M. Talbott
Executive Vice President Marketing

John W. Young
Executive Vice President Human Resources

Antoine Corinthios
President, Four Seasons Europe, Middle East and Africa

James FitzGibbon
President, Four Seasons Asia Pacific

H. Roger Garland
Vice Chairman

Four Seasons is currently undergoing a rapid expansion program. During 1999, Four Seasons opened five new hotels in four countries. Did the openings go as well as expected?

During 1999, new Four Seasons hotels and resorts were opened in Las Vegas, Nevada; Punta Mita, Mexico; Scottsdale, Arizona; Canary Wharf, London; and Paris, France. Each of these hotels was an important addition to the Four Seasons portfolio, but, in particular, we believe the Four Seasons Hotel George V in Paris will become the cornerstone of a growing European portfolio. We have been planning for these openings for a number of years, and had identified and put in place strong management teams to ensure that service standards were well executed in all of the new markets. As a result of the efforts of many dedicated, experienced employees, each of these openings went very well, and we are now more confident than ever in our ability to execute a busy opening schedule in the years ahead.

Kathleen Taylor
President and Chief Corporate Officer

Wolf H. Hengst
President and Chief Operations Officer

How will the growing use of the Internet and other communication tools impact your business? How do you expect to use the Internet in your business?

We believe that the growing use of the Internet by Four Seasons' customers will have a positive effect on our business. The Four Seasons web site (www.fourseasons.com) provides the Corporation with an important tool for communicating with our existing customer base and attracting new customers to the Four Seasons experience. Although a relatively small portion of our business is booked on line, a dedicated 1-800 number allows us to measure the business generated by the information gathered via our web site. To date, the primary user of the web site has been the leisure traveller. In particular, we have found that guests are visiting the Four Seasons web site to better familiarize themselves with a specific destination, and are then contacting Four Seasons or their travel advisor to complete the reservation details.

In the future, the Internet will play a growing role in how we conduct our business, becoming an effective tool for increasing revenue, particularly related to leisure travel and seasonal promotions. It is also a cost effective method of receiving reservations, and for communicating with the Four Seasons worldwide sales force, consumers, travel and lifestyle media, and other distribution channels, such as the travel industry, corporate travel and meeting planners.

Visitors are also using the web site to review the Four Seasons Residence Club projects. In 1999, the closing rate (number of sales per inquiry) from leads generated on the web site was very high.

In 2000, we will be redesigning our web site to improve the content, navigation, search and reservations capabilities to better meet the needs of our visitors. We will also be introducing Internet access in our guest rooms, keeping pace with the ever changing needs of the Four Seasons customer.

Douglas L. Ludwig
Executive Vice President
Chief Financial Officer

In 2000 the Corporation's tax rate will increase significantly. How will this affect long-term growth of Four Seasons' net earnings?

The fundamentals are in place for strong pretax growth in 2000, potentially the strongest in Four Seasons' history, however, net earnings growth will be constrained as a result of the tax rate increase. These growth fundamentals include the continued strong performance of our existing portfolio, new fees from recently opened hotels and resorts, and from new Four Seasons residential products, such as interval, fractional and whole home ownership. These growth fundamentals are supported by the strongest balance sheet in the Corporation's history.

We do not see this one time increase in our effective tax rate as having any effect on our long-term growth potential. Our long-term earnings growth target has been 20% per annum, and we have exceeded this target since becoming a public company in 1986. Looking at the next five-year period, we believe that with the new development opportunities that we are currently assessing, Four Seasons has the ability to grow at 20% per annum over that period despite the tax rate increase this year.

Last year Four Seasons issued US$172.5 million of convertible notes. Given the cash generated by the management business, and the modest cash requirements necessary for maintenance of the core business, why were the notes issued and why did you select that type of debt?

The financing environment for lodging companies historically has been very cyclical. We did not want to be constrained by specific capital market volatility when opportunities become available at attractive valuations.

Barbara M. Talbott
Executive Vice President
Marketing

John W. Young
Executive Vice President
Human Resources

Selecting the convertible notes as a financing vehicle allowed us to meet all of the objectives that we had set for any potential financing. The notes have a very long term, in keeping with the nature of our core business. In addition, no cash funded principal or interest payments are required over the life of the instrument, while at the same time the 4.5% yield to maturity is deductible for tax purposes. Lastly we were attracted by the ability to call the notes at our option, allowing us to make the appropriate capital structure decisions in the future.

Choosing the right time to finance in the capital market allowed the Corporation to solidify its financial strength, ensuring that we can be ready to transact appropriate opportunities whenever they arise. This should give us the flexibility to grow the management business, while successfully managing the Corporation's balance sheet as well.

Q With tight labour markets in many regions where you operate, in particular the U.S., are you finding it difficult to identify and hire staff? Will increasing labour costs affect your margins?

A *Four Seasons defining advantage is our ever expanding base of committed and long serving employees. We have always focused on identifying, hiring and retaining individuals with attitudes that are consistent with Four Seasons service culture. We continue to be successful in attracting these individuals, and have become a preferred employer in our industry because of the Four Seasons work environment, and the way we have chosen to treat each other. The fact that we are undergoing tremendous growth also offers our employees new opportunities for career advancement. For three consecutive years Four Seasons employees have voted us one of* Fortune Magazine*'s "Top 100 Companies to Work For."*

Antoine Corinthios
President Four Seasons Europe, Middle East and Africa

James FitzGibbon
President, Four Seasons Asia Pacific

Although labour costs are increasing in certain markets, we have been able to improve the operating margins in our hotels in each of the past eight years. We believe we can continue to improve our margins further despite higher labour costs. As a result of strong demand levels at the hotels under management, RevPAR and other revenues are increasing at a rate that exceeds these increased costs.

Recently you announced seven new projects, which brings the number of projects under development to 21. Is the development pipeline still strong and what potential markets remain?

The development pipeline is stronger than at any time in our history, and there is no shortage of new markets that could support a Four Seasons hotel, as a result of strong demand, the lack of existing luxury hotels, or a combination of both of these factors. For example, Four Seasons is currently under-represented in many city centres in Europe, South America and Asia, as well as in resort locations in the United States, the Caribbean, Europe and Asia. After the completion of these 21 properties, Four Seasons will have 68 hotels and resorts under management, which in the context of the world market, does not represent a large number.

During 1999 Four Seasons stock was trading at a significant premium to other lodging company stocks. To what do you attribute this?

As a result of nearly 40 years of hard work and unwavering focus on cultivating a strong service culture and operating in only one sector of the lodging industry, we have developed one of business's most valuable assets—a well recognized and understood brand name. Brands that have achieved unique competitive advantage in their industries have consistently been rewarded with premium valuation multiples. Further, luxury goods brands have typically enjoyed unique premium valuations.

Although Four Seasons stock has consistently held a premium in the lodging sector, Four Seasons' shares have historically traded at a multiple discount to some other brand companies and to a number of companies in the luxury goods sector such as Tiffany, Gucci or Moet Hennessy Louis Vuitton. Four Seasons may be set apart from other luxury good brands because of the ongoing demand for our product in satisfying business and leisure travel, and the residential lifestyle, needs of our clientele. Our long-term focus on personalized service has provided our customers with an implicit guarantee of a stress-free stay, making the Four Seasons experience far less discretionary than certain other luxury goods.

The combination of age demographics and the vast wealth creation realized during the current economic cycle means that Four Seasons is well positioned to meet the travel and leisure demands of our customers. As we continue to grow, we should gain greater recognition for the unique experiences which the Four Seasons brand offers, thus creating a cycle of success that should help create long-term shareholder value.

"We view blue chip status as a position that is not defined by size, but by what a blue chip company truly represents: a global brand name, a dominant market position and a sustainable competitive advantage."

Isadore Sharp
Chairman and Chief Executive Officer

Worldwide Locations

The Americas

1. Atlanta
2. Austin
3. Aviara
4. Aviara *Resort Club*
5. Bahamas
6. Boston
7. Caracas
8. Chicago
9. Chicago *(The Ritz-Carlton)*
10. Costa Rica
11. Dallas
12. Hawaii
13. Houston
14. Las Vegas
15. Los Angeles
16. Los Angeles *(The Regent Beverly Wilshire)*
17. Maui
18. Mexico City
19. Miami
20. Nevis
21. New York
22. New York *(The Pierre)*
23. Newport Beach
24. Palm Beach
25. Philadelphia
26. Puerto Rico
27. Punta Mita, México
28. Punta Mita, México *Residence Club*
29. San Francisco
30. Santa Barbara
31. Scottsdale
32. Scottsdale *Resort Club*
33. Seattle
34. Toronto
35. Vancouver
36. Washington, D.C.
37. Whistler

Asia/Pacific

- 38 Bali at Jimbaran Bay
- 39 Bali at Sayan
- 40 Bangkok *(The Regent)*
- 41 Chiang Mai *(The Regent)*
- 42 Hong Kong *(The Regent)*
- 43 Jakarta *(The Regent)*
- 44 Kuala Lumpur *(The Regent)*
- 45 Maldives
- 46 Shanghai
- 47 Singapore
- 48 Singapore *(The Regent)*
- 49 Sydney *(The Regent)*
- 50 Taipei
- 51 Tokyo

Europe

- 52 Berlin
- 53 Bodrum
- 54 Budapest
- 55 Côte d'Azur
- 56 Dublin
- 57 Istanbul
- 58 Lisbon
- 59 London
- 60 London, *Canary Wharf*
- 61 Milan
- 62 Paris
- 63 Prague

Middle East

- 64 Alexandria
- 65 Amman
- 66 Beirut
- 67 Cairo *(First Residence)*
- 68 Cairo *(Nile Plaza)*
- 69 Doha
- 70 Riyadh
- 71 Sharm el Sheikh

Financial Table of Contents

As of March 1, 2000

Business of Four Seasons

Four Seasons Hotels Inc.[1] was incorporated under the Business Corporations Act (Ontario) on January 6, 1978.[2] FSHI's registered and principal office is located at 1165 Leslie Street, Toronto, Ontario, Canada M3C 2K8. The Limited Voting Shares of FSHI are listed on The Toronto Stock Exchange under the symbol FSH and on the New York Stock Exchange under the symbol FS.

Four Seasons is one of the world's leading managers of luxury hotels and resorts. The Corporation manages 47 luxury hotel and resort properties containing approximately 13,780 guest rooms, primarily under the Four Seasons and Regent brand names, in principal cities and resort destinations in 19 countries in North America, Europe, Asia, Australia, and the Caribbean. In addition, 21 hotels and resorts to be operated under the Four Seasons brand name are under construction or development. Twelve of these projects are in countries where Four Seasons does not currently manage a hotel. Fourteen of these new projects include a Four Seasons Residence Club[3] or other residential component. (A chart summarizing the hotels, resorts, Residence Clubs and Four Seasons branded residential projects managed and under construction or development by Four Seasons is set out on pages 20 through 23). The Corporation's strategy is to offer business and leisure travellers the finest accommodation in each destination it serves.

Four Seasons earns revenue from both management and ownership operations. In 1999, approximately 91% of Four Seasons' earnings before other operating items were generated by its management business. In contrast to more volatile ownership operations, management operations tend to generate relatively stable earnings and cash flow for the Corporation and should provide a more solid platform for future growth. In 1999, revenue generated by the hotels and resorts managed by Four Seasons was approximately $2.4 billion. Four Seasons' consolidated revenue from management and ownership of these properties and Residence Clubs in 1999 was $277.5 million.

Under its management agreements, Four Seasons generally supervises all aspects of a project's operations on behalf of its owner, including sales and marketing, reservations, accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, Four Seasons typically receives a base fee calculated as a percentage of gross revenues of the property. In addition, Four Seasons may receive incentive fees based on the property's operating performance.[4]

Four Seasons makes minority investments in, or loans in respect of or to, properties where it is necessary to obtain new management agreements or improve existing management agreements, and where the overall economic return to Four Seasons justifies the investment. The Corporation generally seeks to limit its total capital exposure to no more than 20% of the total equity required for a property, and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation structures its ownership interests separately from its management interests so as to enable the Corporation to dispose of ownership interests as sale opportunities arise, without affecting its management interests.

1 "FSHI" means Four Seasons Hotels Inc. "Four Seasons" or the "Corporation" means, collectively, FSHI and all its subsidiaries, including Four Seasons Hotels Limited ("FSHL"), Four Seasons Hotels and Resorts Asia Pacific Pte Ltd. and FSR International Hotels Limited (formerly known as Regent International Hotels Limited ("Regent")).

2 The articles of FSHI were restated in 1986 to consolidate prior amendments and were amended in 1989 to subdivide each Subordinate Voting Share and each Multiple Voting Share on a 2:1 basis and to create an unlimited number of special shares designated as First Preference Shares and Second Preference Shares. In 1996 the articles were further amended to re-designate the Subordinate Voting Shares as Limited Voting Shares and to create 4,171,924 special shares designated as Variable Multiple Voting Shares, which replaced and have substantially the same rights, privileges, restrictions and conditions as did the Multiple Voting Shares, except that the number of votes per Variable Multiple Voting Share generally increases as Limited Voting Shares are issued and dividends on the Variable Multiple Voting Shares will be in an amount per share equal to 50% of the dividends per Limited Voting Share.

3 Interval and fractional ownership products which are known either as Four Seasons Resort Clubs or Four Seasons Residence Clubs are collectively referred to herein as "Residence Clubs."

4 See "Management Operations" beginning on page 24.

In order to further capitalize on the value of the Four Seasons brand, the Corporation licenses and manages luxury interval and fractional ownership projects known as Four Seasons Resort Clubs or Four Seasons Residence Clubs and other Four Seasons branded residential projects. The Corporation receives fees for the use of the Four Seasons brand in connection with the sale of the interests in these projects, and for services provided in the oversight of the sales and marketing activities. In addition, the Corporation receives fees from the owners of the interests for services provided in the ongoing management of these projects.

To help realize the growth potential of the Regent brand, in 1996 the Corporation entered into an agreement with the Carlson Hospitality Group of Minneapolis ("Carlson"). Pursuant to the arrangement Carlson is licensing the Regent brand, and the Corporation will receive a share of the licensing revenue generated by Carlson. Under the agreement, Four Seasons continues to manage nine Regent hotels for its normal management fees.[5]

Competitive Strengths

The hotel industry is highly competitive. The Corporation believes that it has several distinguishing competitive strengths, including:

Strong Brand Recognition

Four Seasons properties are widely recognized for the exceptional quality of their guest facilities, service and atmosphere, and have been named more frequently than any other competitor among the world's best hotels and travel experiences by *Institutional Investor, Condé Nast Traveler, AAA Five Diamond* and others. The Corporation believes that its brand name recognition cannot easily be replicated by competitors, as it is dependent upon the establishment of a global chain of unique properties of the highest quality.

Superior Hotel Operating Results

Four Seasons generally achieves average room revenue per available room ("RevPAR") and operating profit margins for hotels under its management above the average achieved in the luxury segment of the lodging industry. Four Seasons believes that owners and developers of luxury hotels worldwide are attracted to the Corporation as a result of the superior financial performance of the hotels under its management.

Global Presence

Four Seasons manages a global portfolio of 47 luxury hotels and resorts in 19 countries. Twenty-one additional properties to be operated under the Four Seasons name are under construction or development. Twelve of these are in countries in which the Corporation does not currently manage a hotel or resort. Hotels currently managed by Four Seasons are located in major international financial centres, such as London, New York, Paris, Chicago, Washington, Los Angeles, Tokyo, Milan, Singapore, Hong Kong, Toronto and Sydney, as well as in emerging international markets, such as Berlin and Mexico City. In addition, Four Seasons manages resorts in world-class destinations, such as California, Hawaii, Nevis and Bali, and has Resort Clubs in active sales and operation in California and Arizona. Four Seasons anticipates that it will continue to expand in urban and resort destinations where consumer demand warrants a luxury property. In 1999, approximately 75%, 13%, and 12% of the Corporation's management revenues were derived from hotels and resorts in North America, Asia and Europe, respectively. The Corporation maintains a fully integrated global reservation and sales office system that provides international sales coverage for the Four Seasons properties.

5 See discussion under "Regent Joint Venture" on page 18.

Management Focus

Four Seasons is principally a global hotel and resort management company, deriving over 90% of its 1999 earnings before other operating items from its management business. Although Four Seasons will continue to make loans or investments to secure long-term management contracts, these investments will generally be minority interests and will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment.

Management agreements for the hotels and resorts managed by the Corporation generally are long-term, having an average remaining term of approximately 57 years for Four Seasons hotels and approximately 21 years for hotels and resorts operated under the Regent name, including extension periods available at Four Seasons' option. These agreements entitle Four Seasons to earn base fees, as well as a range of fees for pre-opening development, purchasing, marketing, advertising and reservation services. The Corporation has the ability to participate in the profits of the hotels under its management through incentive fees available at 43 hotels and resorts under management. These incentive fees are generally based on the defined operating profits of the hotel or resort. In 1999, Four Seasons received incentive fees from 29 of its hotels and resorts. During the same period, 31 of the hotels and resorts under its management each generated over $1.0 million annually in base and incentive fees, and the average base and incentive fees earned for all managed hotels was $2.4 million per hotel or resort.

Strategic Relationships

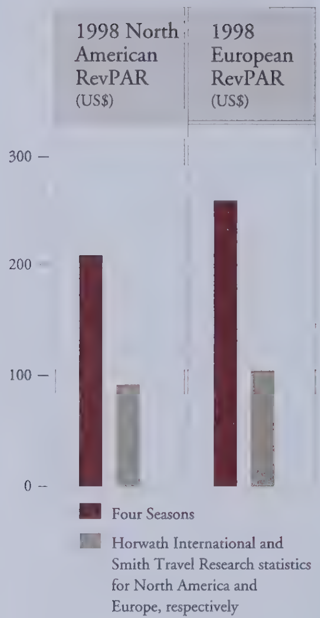
Strategic relationships are an important source of financing for future development opportunities to expand Four Seasons' management operations. Four Seasons has established relationships with numerous institutional and private equity sources that invest in and develop luxury properties. Several of the existing owners have an ownership interest in more than one Four Seasons hotel or resort. Two owners each have an interest in five hotels and one other has an ownership interest in four hotels. In addition, in 1994, a company controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud ("Prince Alwaleed") purchased a significant minority position in FSHI. Since purchasing its interest in FSHI, companies controlled by Prince Alwaleed (collectively, "Kingdom") purchased a majority interest in the Four Seasons Hotel London and purchased the Four Seasons Hotel George V, Paris, which opened under Four Seasons management in late 1999, following an extensive renovation program. Kingdom also holds a minority interest in the Four Seasons resort in Aviara, California and has invested or is expected to make investments in a number of additional properties under various stages of development that the Corporation expects to manage under the Four Seasons brand name, such as the Four Seasons hotels in Cairo, Amman, Riyadh and Beirut.

Strong Management Team

Four Seasons' corporate executive management team consists of nine individuals who are responsible for the global strategic direction of the Corporation and who have an average of 20 years of experience with Four Seasons. This team is supported by 23 corporate vice presidents, who are responsible for various aspects of the Corporation's daily operations, as well as by 51 general managers and regional vice presidents, who together have an average of 13.5 years of experience with Four Seasons. It is a fundamental strategy of Four Seasons to develop its senior management team, to the extent possible, from within to ensure consistency of the service culture and work ethic.

Strong Competitive Position

The Corporation believes that its competitive position is strengthened by the significant barriers to entry into the luxury segment of the hotel management business. Those impediments include the time and significant capital resources required to establish a well recognized luxury brand name and to obtain management contracts for luxury properties in strategic markets worldwide. The Corporation also believes that it has developed a unique service culture, depth of management expertise and multiple capital resources over its nearly 40-year history that would be difficult to replicate.



Business and Growth Strategy

The business strategy of Four Seasons is to continue to enhance its industry position and overall profitability through a focused international expansion program that capitalizes on the strengths of its core management operations and the global value of its brand name. In 1999, revenue generated by the hotels and resorts managed by Four Seasons was approximately $2.4 billion. The Corporation's consolidated revenues from management and ownership of these properties and Residence Clubs in 1999 was $277.5 million. From 1995 through 1999, the Corporation increased its management earnings from $51.8 million to $89.1 million, and the profit margin from management operations over this period increased from 58.5% to 61.9%.

The Corporation believes that the strength of its brand name, its global marketing presence and its operational expertise result in RevPAR premiums and strong operating profitability for luxury hotels under its management, providing Four Seasons with a competitive advantage in obtaining new management contracts worldwide. RevPAR for Core Hotels[6] in North America and Europe, during 1998, the most recent year for which comparable data is available, was US$209 and US$259, respectively, 124% and 145% higher than the RevPAR of the North American and European luxury segments, respectively, as compiled by Horwath International.[7]

The Corporation's growth strategy is to seek to utilize its competitive strengths to increase earnings, cash flow, hotel owners' returns, and shareholder value by continuing to improve the performance of its existing hotel portfolio, by generating profitable growth through the acquisition of new management contracts, and by capitalizing on opportunities to leverage its luxury brand name through compatible business extensions such as Residence Clubs and other Four Seasons branded residential products.

Growth from Existing Properties

Four Seasons believes opportunities exist for growth within its existing and newly opened properties by increasing market share and RevPAR, thereby improving the hotels' profitability and in turn Four Seasons' fee revenues and ownership earnings. From 1998 to 1999, RevPAR for Core Hotels in the United States, Asia and Canada/Mexico increased approximately 6%, 5% and 5%, respectively, and declined in Europe approximately 3%. The decline in European performance was primarily attributable to reduced occupancy at the Four Seasons Hotel Istanbul resulting from disrupted travel in the region due to severe earthquakes. In addition, during 1998, Lisbon hosted Expo. As a result, that market experienced lower occupancy levels in 1999, as compared to 1998. Gross operating profit margins for Core Hotels in the United States and Asia increased as a percentage of total hotel revenue from 35% and 29.4%, respectively, in 1998 to 36.2% and 32.3%, respectively, in 1999. The gross operating profit margins for the Core Hotels in Canada/Mexico were 33% in both 1999 and 1998. Gross operating profit margins for Core Hotels in Europe decreased as a percentage of total hotel revenue from 40.7% in 1998 to 39.9% in 1999 for the reasons noted above. Overall, incentive fees increased 9.3% to $35.1 million in the year ended December 31, 1999.

6 The term "Core Hotels" means hotels and resorts which have been managed by the Corporation throughout the year and the previous year. The Core Hotel concept is used to give year over year operations. Changes from the 1998/1997 Core Hotels are the additions of the Four Seasons Hotel Atlanta, the Four Seasons Resort Aviara and the Four Seasons Hotel, The Ritz Lisbon, and the deletion of The Regent Hotel Sydney (which was temporarily closed for a portion of 1999 for extensive renovations) and the Four Seasons Resort Nevis (which closed for repairs in late November 1999 following damage sustained during Hurricane Lenny).

7 Horwath International and Smith Travel Research.

RevPAR Statistics—Core Hotels (in US$)

Region	Occupancy		Average Room Rate		RevPAR	
	1999	1998	**1999**	1998	**1999**	1998
United States	**74.9%**	74.6%	**$ 317**	$ 300	**$ 237**	$ 224
Canada/Mexico	**68.4%**	68.9%	**$ 181**	$ 171	**$ 124**	$ 118
Europe	**69.4%**	74.6%	**$ 362**	$ 347	**$ 251**	$ 259
Asia	**59.9%**	57.4%	**$ 166**	$ 165	**$ 99**	$ 95
All Core Hotels	**70.0%**	69.5%	**$ 273**	$ 261	**$ 191**	$ 181

New Hotel and Resort Opportunities

Having established a network of luxury hotels in many of the world's key financial centres, future expansion is expected to occur primarily in locations that satisfy Four Seasons' objectives of better servicing the travel needs of its existing customer base and attracting new international business travellers to its managed hotels and resorts worldwide. Four Seasons expects that future growth will be in the form of new hotels and resorts, or the conversion of existing hotels and resorts, in Europe, the Middle East, South America and Asia/India, as well as selected urban and resort locations in the United States and the Caribbean. Overall, Four Seasons plans to increase the number of resorts it manages in order to serve the leisure travel needs of its customers, which should reduce the seasonality of its cash flows. Four Seasons currently has 21 new hotels and resorts under construction or development and is evaluating over 45 additional management opportunities in various locations around the world.

The Corporation believes that it will continue to have the opportunity to consider and enter into appropriate new hotel and resort management agreements as a result of its competitive strengths. In 1999, the Corporation began operations at Four Seasons Hotel Las Vegas; Four Seasons Hotel Canary Wharf, London; Four Seasons Hotel George V, Paris; Four Seasons Resort Punta Mita, Mexico; and Four Seasons Resort Scottsdale at Troon North, Arizona. In 2000, the Corporation expects to assume management of the Four Seasons Hotel Dublin; Four Seasons Hotel Caracas; and Four Seasons Hotel Cairo at The First Residence. For details on these and other hotels under construction or advanced stages of development see the chart on pages 22 to 23.

New Residence Clubs and Branded Residential Properties

As part of its program to leverage its brand name and capitalize on its existing operational and marketing strengths, Four Seasons is embarking on opportunities, such as additional Residence Clubs and branded and serviced residential real estate developments, for the most part integrated with Four Seasons managed hotels and resorts. Four Seasons is currently selling interests in the Residence Clubs adjacent to the Four Seasons Resorts in Aviara, California and Scottsdale, Arizona. The sales and marketing of the Four Seasons Residence Club is expected to commence for Punta Mita, Mexico in late 2000. Four Seasons anticipates pursuing similar initiatives in a number of its future resort and urban developments. Four Seasons expects to earn a range of management fees for the provision of management services in connection with these projects, and to receive fee income for overseeing the sales and marketing of the Residence Clubs, including royalty fees for the use of the Four Seasons brand name.

Regent Joint Venture

The Corporation also expects to earn fee income from its December 1996 alliance with Carlson, which is intended to enhance the future development of Regent hotels and vacation ownership properties around the world. The Corporation believes that the growth potential for the Regent brand inherent in this strategic joint venture surpasses the level the Corporation would have been able to achieve for Regent on its own. Carlson is a global leader in hospitality services and marketing, and has been a successful brand licensor.

Under the terms of its December 1996 alliance, Carlson acquired the rights to the Regent name for new development, and has created a luxury hotel division that is engaged in a worldwide development program to expand the chain of Regent hotels and vacation ownership properties through the addition of new licence arrangements and management contracts under the Regent brand. Four Seasons continues to manage nine Regent hotels.

In addition to its share of management fees from the nine existing Regent hotels that Four Seasons manages, Four Seasons is entitled to receive payments from Carlson calculated as a percentage of the gross royalty revenue of the new development effort. These payments will be determined by the future success of the new enterprise in generating revenue. Carlson is responsible for the operating costs relating to the Regent venture. The goal of the alliance is to maximize the global value of the Regent brand name by creating a larger chain of Regent properties throughout the world.

As at February 2000, Carlson has opened five Regent hotels (The Regent Almaty, Kazakhstan; The Regent, Las Vegas (two hotels, the Grand Palms and the Grand Spa); The Regent Mumbai, India; and The Regent New York). Carlson has announced a fractional ownership project, Club Regent, The Canyons, Park City, Utah.

Capital Development

The Corporation does not require large amounts of capital to maintain existing management agreements or its ownership positions, which are typically minority interests. As a result, in 1999, the Corporation utilized most of its operating cash flow to make investments that allowed the Corporation to obtain new or enhanced management agreements. As at December 31, 1999 the Corporation had $222.2 million in cash reserves and approximately US$200 million available under its bank operating lines.

Industry Awards

Four Seasons has gained a worldwide reputation for quality, service and innovation in the luxury segment of the business and leisure travel market. This reputation has been widely acknowledged by the following leading surveys of hotel properties:

Institutional Investor

Fifteen Four Seasons hotels were ranked among the world's top 75 hotels in a survey of international financiers published in the September 1999 issue of *Institutional Investor*. The Corporation also had nine hotels in the "Top 30" Regional America's Ranking.

AAA Five Diamond Awards

Four Seasons properties received 18 of the lodging awards for 2000. In addition, in 2000, the following four Four Seasons restaurants received the prestigious Five Diamond Award for Restaurants: Truffles Restaurant at the Four Seasons Hotel Toronto, The Restaurant at the Four Seasons Resort Palm Beach, Aujourd'hui at the Four Seasons Hotel Boston and The Fountain Restaurant at the Four Seasons Hotel Philadelphia.

Condé Nast Traveler's Readers' Choice Awards

Eleven Four Seasons properties ranked among the world's top 100 list in the *Condé Nast Traveler*'s 1999 Readers' Choice Awards. Eleven Four Seasons hotels were ranked in the "Top 30 North American Hotels" category, and Four Seasons Resort Bali at Jimbaran Bay was ranked number one in the world.

Travel & Leisure

Travel & Leisure's "World's Best" awards in September 1999 listed eleven Four Seasons and Regent hotels among the "Top 100 Hotels," including five within the top 20. Four Seasons Resort Hualalai (Kona) ranked as the number one spa hotel in the United States and Four Seasons Resort Bali at Jimbaran Bay's spa program ranked number one in the top 10 spas around the world.

Andrew Harper's Hideaway Report

Twelve Four Seasons properties received honours in the annual readers' survey on "The World's Best Hotels & Resorts."

Description of Hotels, Resorts, and Residence Clubs

Four Seasons properties are comprised of luxury hotels, resorts and Residence Clubs whose target customers are principally business travellers, corporate and incentive groups and discriminating leisure travellers. Four Seasons urban hotels generally are centrally located in the commercial and financial districts of the world's leading cities in North America, Asia and Europe. Four Seasons luxury resorts and Residence Clubs provide extensive recreational facilities and meeting facilities to attract upscale leisure travellers and groups. The following table sets forth certain information relating to each property managed by Four Seasons:

Hotel/Resort/Residence Club and Location	Approximate Number of Rooms/Units	Approximate Equity Interest [1]
North America		
Four Seasons Hotel Atlanta, *Georgia, USA*	244	—
Four Seasons Hotel Austin, *Texas, USA*	291	—
Four Seasons Resort Aviara, *California, USA*	331	7.3% [2]
Four Seasons Resort Club Aviara, *California, USA*	240 [3]	7.3% [2]
The Regent Beverly Wilshire Hotel (Beverly Hills), *California, USA*	395	—
Four Seasons Biltmore Resort (Santa Barbara), *California, USA*	217	—
Four Seasons Hotel Boston, *Massachusetts, USA*	288	—
Four Seasons Hotel Chicago, *Illinois, USA*	343	—
The Ritz-Carlton Hotel Chicago, *Illinois, USA*	435	—
Four Seasons Hotel Houston, *Texas, USA*	399	—
Four Seasons Resort Hualalai (Kona), *Hawaii, USA*	243	—
Four Seasons Resort and Club Las Colinas (Dallas), *Texas, USA*	357	—
Four Seasons Hotel Las Vegas, *Nevada, USA*	424	—
Four Seasons Hotel Los Angeles, *California, USA*	285	—
Four Seasons Resort Maui at Wailea, *Hawaii, USA*	380	—
Four Seasons Hotel Mexico City, *Mexico*	239	—
Four Seasons Resort Nevis, *Nevis* [4]	196	—
Four Seasons Hotel Newport Beach, *California, USA*	285	—
Four Seasons Hotel New York, *New York, USA*	370	—
Four Seasons Resort Palm Beach, *Florida, USA*	210	—
Four Seasons Hotel Philadelphia, *Pennsylvania, USA*	364	—
The Pierre (New York), *New York, USA*	202 [5]	100% [6][7]
Four Seasons Resort Punta Mita, *Mexico*	140 [8]	31% [2][9]
Four Seasons Resort Scottsdale at Troon North, *Arizona, USA*	210	3.9% [2][10]

Hotel/Resort/Residence Club and Location	Approximate Number of Rooms/Units	Approximate Equity Interest [1]
Four Seasons Resort Club Scottsdale at Troon North, *Arizona, USA*	126[11]	65.8% [2][12]
Four Seasons Olympic Hotel (Seattle), *Washington, USA*	450	3.4% [6]
Four Seasons Hotel Toronto, *Ontario, Canada*	380	—
Four Seasons Hotel Vancouver, *British Columbia, Canada*	385	100% [6][13]
Four Seasons Hotel Washington, *District of Columbia, USA*	259	—
Asia/Pacific		
Four Seasons Resort Bali at Jimbaran Bay, *Indonesia*	147	—
Four Seasons Resort Bali at Sayan, *Indonesia*	46	—
The Regent Hotel Bangkok, *Thailand*[14]	356	—
The Regent Resort Chiang Mai, *Thailand*	64	—
The Regent Hong Kong, *Hong Kong*[15]	602	25% [6]
The Regent Hotel Jakarta, *Indonesia*	365	—
The Regent Hotel Kuala Lumpur, *Malaysia*	468	—
Four Seasons Resort Kuda Huraa, *Maldives*	106	—
Four Seasons Hotel Singapore, *Singapore*	254	—
The Regent Hotel Singapore, *Singapore*	441	—
The Regent Hotel Sydney, *Australia*	531	15.2% [6]
The Regent Hotel Taipei, *Taiwan* [16]	539	—
Four Seasons Hotel Tokyo, *Japan*	283	—
Europe		
Four Seasons Hotel Berlin, *Germany*	204	100% [6][17]
Four Seasons Hotel Istanbul, *Turkey*	65	—
Four Seasons Hotel, The Ritz Lisbon, *Portugal*	284	—
Four Seasons Hotel Canary Wharf, *England*	139	—
Four Seasons Hotel London, *England*	220	12.5% [6]
Four Seasons Hotel Milan, *Italy*	98	—
Four Seasons Hotel George V, Paris, *France*	245	—

(1) The Corporation makes minority investments in, or loans in respect of or to, properties where it is necessary to obtain new management agreements or improve existing management agreements, and where the overall economic return to the Corporation justifies the investment. For a description of the Corporation's investments in existing properties, including the equity investments listed in the table, see Management's Discussion and Analysis on pages 43 to 44.

(2) Freehold interest.

(3) The Four Seasons Resort Club Aviara may have up to 240 units at full build out.

(4) During 1999, the resort was closed for extensive repairs following damage sustained during Hurricane Lenny.

(5) Includes 30 cooperative suites leased from individual owners and operated as hotel rooms.

(6) Leasehold interest.

(7) Initial term of lease expires in January 2002. The Corporation renewed the lease for a further 10 years on the same terms and conditions. The Corporation has the option to renew for two further 10 year terms after the expiry of this initial extension. (See discussion in Management's Discussion and Analysis on page 34.)

(8) As at the date hereof, the resort has 100 rooms in operation with 40 additional rooms under construction.

(9) It is anticipated that Four Seasons will reduce its interest in the hotel to less than 20%.

(10) Four Seasons has a preferred profits interest of approximately US$10.6 million subordinated debt from the hotel which may be increased to reflect any construction cost overruns required to complete the hotel.

(11) The Four Seasons Resort Club Scottsdale at Troon North may have up to 126 units at full build out.

(12) It is anticipated that the Corporation will reduce its equity interest through a sale to an equity partner.

(13) Initial term of lease expired in January 2000. The Corporation renewed the lease for a further 20 years on the same terms and conditions. (See discussion in Management's Discussion and Analysis on page 34.)

(14) The management agreement was to have expired in December 2005. Four Seasons has entered into an agreement with the owner to extend the management agreement until December 2012. Since the execution of this agreement, the owner has indicated that such agreement must have shareholder approval in order to be effective. Four Seasons believes that the extension of this agreement is now effective. In any event, the Corporation has been advised by the owner that shareholder approval is being sought and the Corporation will take whatever actions are available to it to ensure management of the hotel remains with Four Seasons.

(15) Initial terms of operating lease and management agreement expire in December 2000. There was an option to extend the lease agreement for an additional 10 years and the lease has been extended. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. While the lessee corporation and not Four Seasons controls the negotiation of a new management agreement, the Corporation intends to take whatever actions are available to it to ensure management of the hotel remains with Four Seasons.

(16) Management agreement expires in December 2000. However, the annual base management fee of US$1.9 million from the hotel ceased in 1998. The Corporation is currently discussing a possible extension of the management agreement.

(17) In addition to the leasehold interest, Four Seasons has a 26% investment in the company that owns and has constructed the multi-use project in Berlin, as well as a 26% interest in the company that owns the freehold interest in the hotel.

Four Seasons currently has 21 hotels and resorts under construction or development which are to be operated under the Four Seasons name. In addition, a Residence Club is under development adjacent to the Four Seasons Resort in Punta Mita, Mexico. The following table sets forth certain information relating to these properties:

Hotel/Resort/Residence Club and Location (1)	Approximate Number of Rooms	Scheduled Opening	Expected Capital Commitment (millions)
Four Seasons Hotel Alexandria, *Egypt* (2)	120	2004	—
Four Seasons Hotel Amman, *Jordan*	197	2001	US$5.5
Four Seasons Hotel Beirut, *Lebanon*	287	2003	US$5
Four Seasons Resort Bodrum, *Turkey* (2)	139	2003	US$8.2
Four Seasons Hotel Budapest, *Hungary*	170	2002	€10
Four Seasons Hotel First Residence Cairo, *Egypt*	273	2000	—
Four Seasons Hotel Nile Plaza Cairo, *Egypt* (2)	374	2002	US$5

Hotel/Resort/Residence Club and Location [1]	Approximate Number of Rooms	Scheduled Opening	Expected Capital Commitment (millions)
Four Seasons Hotel Caracas, *Venezuela* [2]	212	2000	US$5 [3]
Four Seasons Resort Costa Rica, *Costa Rica* [2]	170	2002	US$10
Four Seasons Resort Côte d'Azur, *France* [2]	100	2002	—
Four Seasons Hotel Doha, *Qatar* [2]	235	2003	US$4
Four Seasons Hotel Dublin, *Ireland*	259	2000	— [4]
Four Seasons Resort Exuma, *The Bahamas* [2]	235	2002	US$15
Four Seasons Hotel Miami, *Florida, USA* [2]	222	2002	US$15
Four Seasons Hotel Prague, *Czech Republic*	162	2001	$22.1 [5]
Four Seasons Resort Puerto Rico, *Puerto Rico* [2]	350	2003	US$10
Four Seasons Residence Club Punta Mita, *Mexico*	86 [6]	2000 (sales)	US$6
Four Seasons Hotel Riyadh, *Saudi Arabia* [2]	242	2002	—
Four Seasons Hotel San Francisco, *California, USA* [2]	277	2001	US$8.6
Four Seasons Hotel Shanghai, *People's Republic of China*	440	2001	US$17.5 [7]
Four Seasons Resort Sharm el Sheikh, *Egypt* [2]	141	2001	—
Four Seasons Resort Whistler, *British Columbia, Canada* [2]	254	2002	$17

(1) Information concerning hotels, resorts and Residence Clubs under construction or under development is based upon agreements and letters of intent and may be subject to change. The dates of opening and proposed capital commitments have been estimated by management. There can be no assurance that the date of opening will be achieved, that estimated capital commitments will not change or that these projects will be completed.

(2) This project is expected to include a Four Seasons Residence Club or a Four Seasons branded residential component.

(3) In addition, Four Seasons has agreed, if requested by Owner, to issue a cash flow guarantee (secured by a US$6 million letter of credit) to the first mortgage lender to secure at least US$2 million annual income available for debt service in the first 10 years of operation.

(4) Four Seasons has provided an IR£3 million guarantee to fund construction cost overruns in connection with the hotel.

(5) Although the Corporation has a 66.7% interest, it is anticipated that the Corporation will reduce the interest through a sale to an equity partner.

(6) The Four Seasons Residence Club Punta Mita may have up to 86 units at full build out.

(7) It is anticipated that Four Seasons will sell 25% of this investment to an equity partner before completing its investment.

Management Operations

Management Agreements

Four Seasons generally supervises all of its hotels pursuant to separate management agreements and three hotel lease agreements with third party hotel owners. Under its management agreements, Four Seasons generally oversees all aspects of the day-to-day operations of each hotel on behalf of the hotel owner, including hiring, training and supervising staff, maintaining sales and marketing efforts, providing hotel accounting, purchasing and budgeting functions, providing support for management information systems and applications and providing for the safekeeping, repair and maintenance of the physical assets. Four Seasons performs these services within the guidelines contained in annual operating and capital plans that are submitted to the owners of the hotels during the last quarter of the preceding year for their review and approval. For these services, Four Seasons generally earns a number of fees including a base fee equal to a percentage of hotel gross operating revenue, and incentive fees based on certain operating results of the hotel.

Four Seasons provides centralized reservations services, worldwide sales offices, marketing programs and advertising services to the Four Seasons hotels under its management and supplementary oversight sales support to the Regent hotels which it manages. Core marketing and reservation services for Regent are provided by Carlson.[8]

Four Seasons also provides a centralized purchasing system for goods to maintain uniform quality and to control hotel operating costs at all the Four Seasons hotels and certain Regent hotels under its management. In return for this service, Four Seasons receives a fee calculated as a percentage of the cost of goods purchased.

Although the owners generally are responsible for financing and managing the development of hotels, Four Seasons typically plays a significant pre-opening role. Four Seasons provides advice with respect to the design and construction specifications of hotels during the development stage to ensure that they meet Four Seasons' standards. Four Seasons earns a variety of fees for these pre-opening services. Four Seasons may also assist owners in connection with the refurbishment of hotels in return for which it may earn a refurbishing fee.

Under the Corporation's management agreements, the hotel owner is responsible for the funding of the hotel's capital expenditures and working capital requirements, including the salaries and benefits of all hotel employees. The hotel owner typically is required to set aside a percentage of hotel revenue as a capital reserve for the hotel. Such percentages typically range from 3% to 5% of hotel gross operating revenues. Four Seasons proposes an operating plan and capital expenditure budget to the hotel owner for approval on an annual basis. All structural changes, major refurbishing programs and major repairs require the separate approval of hotel owners prior to implementation by Four Seasons.

Total fee revenues are geographically diversified around the world, with only North America as a geographic segment contributing in excess of 40% of all fee revenues in 1999 (75% in 1999 as compared to 70% in 1998). The diversification of fee revenues has increased significantly over the past eight years. With the opening of hotels and resorts under construction and development, the Corporation expects greater diversification of fee revenues over the next five years.

Residence Clubs

The Corporation is responsible for the branding and sales and marketing of Residence Club interests under the Four Seasons brand. For this service, it is entitled to receive a fee based on a percentage of the gross selling price of the interests. In addition, the Corporation will receive an ongoing management fee from the owners of the interests for the management of the day-to-day operations of the completed projects.

8 See "Regent Joint Venture" on page 18.

Sales and Marketing

Four Seasons is responsible for the development of overall sales and marketing strategies for the portfolio of Four Seasons managed hotels, which include building international awareness for the Four Seasons brand and developing local market potential for specific hotels. Four Seasons' marketing efforts are coordinated through its headquarters in Toronto and are targeted at the luxury segment of the market worldwide. Four Seasons' customer mix consists principally of business travellers, groups (including corporate and incentive), and leisure travellers. These customer segments accounted for an estimated 40%, 28% and 32%, respectively, of total room nights in 1999. The corporate marketing staff also oversees the planning and implementation of hotel marketing programs and organizes the training and development programs for the global sales force and the local sales and marketing staff.

Four Seasons has a global sales force of over 100 people in 13 integrated sales offices in Atlanta, Chicago, Dallas, Frankfurt, Hong Kong, London, Los Angeles, New York, Singapore, Sydney, Tokyo, Toronto and Washington, D.C. Key objectives of the sales force are to attract groups and corporate business travellers for the hotels and resorts, as well as to establish personal contacts with nationally recognized travel agencies. In addition, a total of over 300 salespeople are employed locally at hotels under management. The local marketing strategy concentrates on developing rooms and food and beverage business for hotels locally and regionally, and promoting the hotel as a centre of community activity with a view to increasing local revenues.

Four Seasons also provides an international corporate advertising program that develops and places advertising for the Four Seasons hotels and oversees each hotel's promotional programs. The Corporation's advertisements are designed to enhance consumer awareness of Four Seasons' luxury service and the value that such services provide to the business and leisure traveller.

The Corporation staffs one reservation centre for Four Seasons branded hotels and resorts. The Corporation's global reservation service system provides reservation services in the local language in major North American, Asian and European cities, in a total of 26 markets worldwide. Electronic reservations are another key part of Four Seasons' global distribution network, as Four Seasons reservation systems are fully integrated with international airline booking systems. This enhances service to travel agents around the world by giving them access to electronically updated hotel inventory and room rates.

The Corporation receives corporate sales and marketing fees, centralized reservation service fees and corporate advertising fees from all Four Seasons hotels, thereby enabling it to recover substantially all of the costs of providing these services.

Management Resources

Each Four Seasons property is managed by a general manager and supported by a regional vice president (who also is a general manager), and other corporate vice presidents. The size of each property's management team and its hourly staff varies, based on the size and business volume of the particular property. Property management monitors staffing levels on a daily basis to optimize labour productivity and minimize costs.

A general manager is responsible for supervising the day-to-day operations of a single property and is compensated in part based on the operational performance of that property. Four Seasons general managers report directly to one of 10 regional vice presidents or directly to a senior vice president, operations. A regional marketing director, an area controller and a regional human resource director complete the regional support team. The majority of these individuals are full-time employees of a Four Seasons managed property, with a portion of their time being devoted to regional activities. The Corporation believes its regional management structure is a key component in Four Seasons' ability to deliver and maintain the highest and most consistent standards of product quality and service at each of its properties in a cost effective manner, especially as it expands globally.

From the corporate level, the Corporation provides each property with the benefits of management services that are delivered by a network of experienced executives, corporate personnel and area managers. The Corporation also provides or arranges assistance and training to each property's employees for administration, operations, rooms and guest service, reservations, maintenance and engineering, human resources and benefits. Other services provided by the Corporation include advice and assistance with accounting, tax, legal, risk management, treasury, information technology, internal audit and credit services.

Employees

Four Seasons directly employs and is responsible for approximately 315 people at the worldwide sales offices, the central reservations offices and the various corporate offices. In addition, there are approximately 25,000[9] employees located at the 47 hotels, resorts and Residence Clubs managed by Four Seasons. All costs relating to property based employees, including wages, salaries and health and insurance benefits, are the responsibility of the property owners and are generally paid out of the operating cash flow of the property. Management and corporate staff share responsibility for the selection and training of property based employees and for ensuring, through progressive career development, an adequate supply of mobile, qualified and experienced staff to match the growth of the Corporation's operations internationally. Maintenance of employee communication, motivation and morale at high levels is necessary to meet the expectations of Four Seasons' clientele. A significant effort has been devoted to developing customized hiring practices, training and career development programs and approaches in this context.

Of the 47 hotels and resorts under management, 17 are covered by collective bargaining agreements.

Ownership Operations

Four Seasons holds an ownership interest in, or has loans in respect of or to, 18 of the 47 hotels and resorts currently under management. Four Seasons' most significant ownership interests are: 100% leasehold interest in the Four Seasons Hotel Vancouver, The Pierre in New York, and the Four Seasons Hotel Berlin,[10] and a 25% leasehold interest in The Regent Hong Kong. The Corporation also holds secured cash flow loans in connection with the transactions relating to the Four Seasons Hotel London[11] and has a loan outstanding in connection with the Four Seasons Hotel George V, Paris.[12] During the year, the Corporation also made additional loans to The Regent Hotel Sydney[12] and the Four Seasons Resort Scottsdale.[13]

Four Seasons works closely with the owners and investors in developing new properties and acquiring existing luxury properties to be managed by Four Seasons. To the extent required, Four Seasons will make loans or minority investments to secure long-term management contracts, but these investments will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment. However, Four Seasons generally limits its total capital exposure to no more than 20% of the total equity required for the new property and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation attempts to structure its ownership interests separately from its management interests so as to enable it to dispose of an ownership interest as sale opportunities arise, without affecting its management interests.

9 In addition, there are approximately 300 employees located at the Four Seasons Hotel Dublin, Four Seasons Hotel Caracas and Four Seasons Hotel Cairo, which properties have not yet opened.

10 See discussion under "Four Seasons Hotel Berlin" on page 35.

11 See discussion under "Four Seasons Hotel London" on page 35.

12 See note 4 to the consolidated financial statements.

13 See note 5 to the consolidated financial statements.

Intellectual Property

In the highly competitive service industry in which Four Seasons operates, trade names, trademarks and service marks are very important in the sales and marketing of those services. Four Seasons has a significant number of trade names, trademarks and service marks, and significant time and effort are spent each year on surveillance, registration and protection of trade names, trademarks and service marks, which Four Seasons believes have become synonymous in the lodging industry with a standard of attention to detail and an unwavering dedication to excellence.

Four Seasons and Carlson have entered into an arrangement pursuant to which Carlson has acquired rights to the Regent name for new development. Carlson now owns and has exclusive right to use the Regent name and related trademarks, service marks and logos and has granted Four Seasons the right to use the Regent name and related marks and logos at Regent properties managed by Four Seasons.[14] The costs associated with the maintenance of the Regent brand and marks are the obligation of Carlson.

Selected Consolidated Financial Information

Two-Year Summary by Quarter

	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
(In millions of dollars except per share amounts)	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
Consolidated revenues	**$ 85.8**	$ 75.5	**$ 66.0**	$ 58.8	**$ 68.6**	$ 63.0	**$ 57.1**	$ 50.7
Earnings (loss) before other operating items:								
Management operations	**25.4**	23.5	**23.0**	20.3	**21.6**	19.2	**19.1**	16.9
Ownership operations	**11.5**	7.5	**1.0**	0.6	**0.7**	4.4	**(4.8)**	(4.3)
Net earnings:								
Total	**$ 33.9**	$ 27.4	**$ 20.3**	$ 16.7	**$ 22.2**	$ 17.9	**$ 10.1**	$ 7.7
Basic earnings per share	**$ 0.98**	$ 0.81	**$ 0.60**	$ 0.49	**$ 0.64**	$ 0.53	**$ 0.30**	$ 0.23

14 See "Regent Joint Venture" on page 18.

Five-Year Review

(In millions of dollars except per share amounts)	**1999**	1998	1997	1996	1995
Statements of Operations Data:					
Consolidated revenues [1]	**$ 277.5**	$ 247.9	$ 240.4	$ 121.0	$ 135.8
Management Operations					
Revenues	**$ 144.0**	$ 126.9	$ 106.0	$ 94.7	$ 88.5
Management earnings before other operating items	**89.1**	79.9	63.7	55.7	51.8
Ownership Operations					
Revenues	**132.4**	125.2	135.3	17.6	42.5
Distribution from hotel investments	**8.3**	2.7	6.4	9.4	6.2
Ownership earnings before other operating items	**8.4**	8.1	15.4	8.9	15.1
Earnings before other operating items	**97.5**	88.0	79.1	64.6	66.9
Depreciation and amortization	**(12.5)**	(15.2)	(15.8)	(14.0)	(16.9)
Other operating income (expense), net	**3.6**	2.1	(12.0)	—	(95.0)
Earnings (loss) from operations [2]	**88.6**	74.9	51.3	50.6	(45.0)
Interest income (expense), net	**0.4**	(3.8)	(8.9)	(18.8)	(25.7)
Earnings (loss) before taxes [3]	**89.0**	71.1	42.4	31.8	(70.7)
Income tax expense	**(2.5)**	(1.4)	(1.6)	(2.0)	(3.9)
Net earnings (loss)	**$ 86.5**	$ 69.7	$ 40.8	$ 29.8	$ (74.6)
Earnings (loss) per share:					
Basic	**$ 2.52**	$ 2.06	$ 1.24	$ 1.04	$ (2.62)
Weighted average number of shares (millions) [4]	**34.3**	33.8	32.8	28.7	28.4
Changes in Financial Position:					
Cash provided by operations	**$ 106.8**	$ 75.8	$ 64.8	$ 43.7	$ 38.7
Cash provided by (used in) financing [5]	**202.5**	33.3	3.6	(45.8)	(37.0)
Cash provided by (used in) capital investments	**(102.9)**	(117.2)	(58.3)	(19.6)	26.6
Balance Sheet Data:					
Cash and cash equivalents	**$ 222.2**	$ 17.6	$ 25.3	$ 15.4	$ 36.8
Total assets	**832.1**	545.1	453.2	385.3	381.6
Total debt	**187.1**	165.0	140.2	240.0	267.6
Shareholders' equity	**587.7**	330.4	254.5	88.1	57.2
Other Data:					
Total revenues of all managed hotels [6]	**$ 2,370.2**	$ 2,270.7	$ 2,119.4	$ 1,901.5	$ 1,837.9
Management operating margin [7]	**61.9%**	62.9%	60.1%	58.8%	58.5%
Management earnings before other operating items as a % of earnings before other operating items	**91.4%**	90.7%	80.5%	86.2%	77.4%
EBITDA [8]	**$ 97.5**	$ 88.0	$ 79.1	$ 64.6	$ 66.9
Market price per share at year-end	**$ 76.80**	$ 45.00	$ 45.00	$ 27.75	$ 19.00
Shares outstanding (millions) [4]	**34.5**	33.9	33.7	28.7	28.5
Market capitalization at year-end	**$ 2,649.1**	$ 1,526.0	$ 1,517.4	$ 797.2	$ 541.3
Employees [9]	**25,300**	23,000	22,000	21,000	21,500

(1) Consolidated revenues are comprised of revenues from hotel management operations, revenues from hotel ownership operations and distributions from hotel investments, less fees from hotel ownership operations to hotel management operations.

(2) Earnings (loss) from operations represents earnings before other operating items less (i) depreciation and amortization plus (ii) other operating income less (iii) other operating expense.

(3) Earnings (loss) before taxes represents earnings (loss) from operations plus (i) interest income less (ii) interest expense.

(4) Weighted average number of shares and shares outstanding are comprised of Limited Voting Shares and Variable Multiple Voting Shares.

(5) Restated to reflect a change in generally accepted accounting principles effective January 1, 1999, requiring dividends paid to be included in cash provided by (used in) financing.

(6) Total revenues of all managed hotels consist of rooms, food and beverage, telephone and other revenues of all the hotels which the Corporation manages.

(7) Management operating margin is equal to management earnings before other operating items divided by management revenues.

(8) EBITDA is equal to net earnings (loss) plus (i) income tax expense plus (ii) interest expense less (iii) interest income plus (iv) other operating expense less (v) other operating income plus (vi) depreciation and amortization. EBITDA is the same as earnings before other operating items. EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles, and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by generally accepted accounting principles. EBITDA is included herein because management believes that certain investors find it to be a useful tool for measuring the ability to service debt.

(9) The majority of the employees are directly employed by the hotels. Four Seasons directly employs and is responsible for approximately 315 people at the worldwide sales offices, the central reservations offices and the corporate offices.

Summary Hotel Operating Data

The following table sets forth certain summary hotel operating data for hotels and resorts under Four Seasons management in the years shown.

(unaudited)	**1999**	1998	1997	1996	1995
All Managed Hotels:					
Worldwide					
No. of properties	**47**	42	39	37	38
No. of rooms	**13,779**	12,782	12,205	11,628	12,663
North America					
No. of properties	**27**	24	24	22	22
No. of rooms	**8,322**	7,574	7,414	6,837	7,152
Asia/Pacific					
No. of properties	**13**	13	11	11	14
No. of rooms	**4,202**	4,344	4,197	4,197	5,186
Europe					
No. of properties	**7**	5	4	4	2
No. of rooms	**1,255**	864	594	594	325
Stabilized Hotels: (1)					
Worldwide					
No. of properties	**39**	38	36	33	36
No. of rooms	**11,355**	12,155	11,424	10,725	12,212
Occupancy (2)	**69.8%**	70.4%	73.7%	74.9%	71.7%
ADR (3)	**$ 403**	$ 375	$ 339	$ 316	$ 279
RevPAR (4)	**$ 281**	$ 264	$ 250	$ 237	$ 200
Gross operating margin (5)	**35.5%**	34.5%	33.7%	32.6%	28.9%
North America					
No. of properties	**23**	24	22	21	22
No. of rooms	**7,352**	7,568	6,837	6,587	7,152
Occupancy (2)	**74.0%**	73.9%	75.2%	75.3%	70.9%
ADR (3)	**$ 444**	$ 425	$ 369	$ 329	$ 294
RevPAR (4)	**$ 329**	$ 314	$ 278	$ 248	$ 208
Gross operating margin (5)	**36.0%**	34.9%	33.2%	31.3%	27.9%
Asia/Pacific					
No. of properties	**11** (6)	11	11	10	12
No. of rooms	**3,132** (6)	4,197	4,197	3,813	4,735
Occupancy (2)	**59.9%**	63.3%	70.8%	73.5%	72.5%
ADR (3)	**$ 257**	$ 232	$ 258	$ 267	$ 239
RevPAR (4)	**$ 154**	$ 147	$ 182	$ 196	$ 173
Gross operating margin (5)	**33.1%**	31.2%	33.3%	33.8%	29.2%
Europe					
No. of properties	**5**	3	2	2	2
No. of rooms	**871**	390	390	325	325
Occupancy (2)	**68.7%**	78.5%	79.2%	81.4%	78.9%
ADR (3)	**$ 475**	$ 689	$ 598	$ 570	$ 515
RevPAR (4)	**$ 327**	$ 541	$ 473	$ 464	$ 407
Gross operating margin (5)	**37.0%**	42.4%	41.3%	41.7%	39.6%

(1) The term "Stabilized Hotels" means hotels and resorts that were fully open under Four Seasons management throughout a particular year and during the last quarter of the prior year. Stabilized Hotels data is used when information for more than two years is provided.

(2) Occupancy percentage is defined as the total number of rooms occupied divided by the total number of rooms available.

(3) ADR is defined as average daily room rate per room occupied.

(4) RevPAR is defined as average room revenue per available room. RevPAR is a commonly used indicator of market performance for hotels and represents the combination of the average daily room rate and the average occupancy rate achieved during the period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel.

(5) Gross operating margin represents gross operating profit as a percent of gross operating revenue.

(6) Changes from the 1998 Stabilized Hotels are the additions of the Four Seasons Resort Kuda Huraa, Maldives and the Four Seasons Resort Bali at Sayan, and the deletion of The Regent Hotel Sydney (which was temporarily closed for a portion of 1999 for extensive renovations) and The Regent Hotel Taipei (whose base management fee of US$1.9 million ceased in 1998).

Financial Objectives

The key financial objectives of the Corporation over the next few years can be summarized as follows:

- Achieve earnings per share growth of 20% per annum.
- Achieve an average return on capital deployed of at least 10% over the Corporation's long-term cost of capital.
- Achieve 90% of the Corporation's earnings from its management business, which includes management of hotels, resorts, Residence Clubs and other residential projects.
- Make 70% or more of the Corporation's annual operating cash flow available for investments in new projects that provide long-term opportunities for growth in management and royalty fees.
- Maintain an investment grade balance sheet and a low cost of capital to facilitate future financing of the Corporation's growth initiatives.
- Focus on ongoing improvements in operating profit margins at both the property and corporate level, to maximize returns on capital without additional investment.
- Maintain long-term tax efficiency.
- Consider divesting the Corporation's minority equity investments or loans, to allow capital to be made available for new minority investments related to new management or royalty opportunities.
- Maintain a prudent risk profile on the investment of the Corporation's cash reserves.
- Make ongoing investments in technology to enhance the customer's access to information on the Corporation's properties and provide a variety of distribution channels for reservations capabilities.

Growth Objectives

The key growth objectives of the Corporation over the next few years can be summarized as follows:

- Achieve growth of the Four Seasons portfolio through the addition of new hotels and resorts under management, additional Residence Club opportunities, and selected luxury residential projects.
- Identify and pursue opportunities to utilize the Corporation's free cash flow to acquire the management of existing unbranded luxury hotels, or groups of luxury hotels.
- Maintain and enhance Four Seasons RevPAR growth rates and operating profits of the managed hotels.
- Identify and pursue opportunities that allow the Corporation to maintain its high profit margins in, and cash flow from, its management operations.
- Consider other opportunities for growth that represent consistent and productive extensions of the Four Seasons and Regent brands.

Risk Management Objectives

The key risk management objectives of the Corporation over the next few years can be summarized as follows:

- Ensure that the risks and benefits of new investments are consistent with the Corporation's key financial objectives, through the careful consideration and review by the Corporation's Management Committee.
- Mitigate business cycle risks through both geographic diversity and the business mix of (i) hotel management agreements, (ii) Residence Club or branded luxury residences, management and royalty agreements, (iii) licensing and management revenue relating to the Regent brand, (iv) hotel and Residence Club investments, and (v) effective utilization of the Corporation's cash reserves.
- Engage in appropriate currency hedging activities to minimize the risks associated with foreign currency exposures and interest rate risk.
- Identify and diversify the number of equity and debt sources available to the Corporation, to permit the Corporation to continue to pursue an aggressive growth program.

Management's Discussion and Analysis (continued)

- Minimize the Corporation's investments in areas of high risk, and obtain premium returns on invested capital in certain regions to offset potential political or emerging market risks.
- Minimize the uncertainty of tenure of the Corporation's management agreements by negotiating long-term agreements and non-disturbance arrangements (which help to protect the Corporation's management rights in the event of a sale of a property or any potential debt foreclosures).
- Conduct ongoing risk assessment of the Corporation's insurance programs to ensure that coverages are appropriate.
- Minimize the Corporation's exposure to long-term operating leases, other material ownership investments, or recourse financial obligations relating to managed properties.

Overview of 1999

The Corporation achieved a number of important strategic and financial objectives over the past 12 months, including the following:

- **Earnings growth:** Net earnings increased 24.1% to $86.5 million ($2.52 earnings per share), as compared to net earnings of $69.7 million in 1998 ($2.06 earnings per share). This increase is attributable primarily to improvements in the management business, and lower overall interest costs.
- **Internal growth:** RevPAR for Core Hotels in the United States increased approximately 6% in 1999, as compared to 1998. As well, due to the rebounding Asian economies, RevPAR for Core Hotels in Asia increased by 4.7% in 1999, as compared to 1998.
- **Profit margin performance:** The profit margin on management operations remained above 60% for the third year in a row.
- **Business mix:** The Corporation's objective of achieving 90% of its earnings from management operations was met for the second consecutive year.
- **Unit growth:** The Corporation opened four new properties: the Four Seasons Hotel Las Vegas, the Four Seasons Hotel Canary Wharf, London, the Four Seasons Resort Punta Mita, Mexico, and the Four Seasons Resort Scottsdale at Troon North, Arizona during 1999. Also during the year, the Four Seasons Hotel George V, Paris reopened after an extensive renovation.
- **Capital spending:** In 1999, approximately 83% or $88.8 million (1998 – 82% or $98.8 million) of total capital spending was for new growth opportunities. Most of these investments have projected internal rates of return in excess of the Corporation's hurdle rate of 20%, and well in excess of its cost of capital. The balance of capital spending (1999 – $17.6 million, 1998 – $21 million) was for dividends and capital expenditures on existing assets.
- **Debt financing:** The Corporation successfully raised gross proceeds of US$172.5 million through the issuance of zero coupon debentures, and used a portion of the proceeds to repay existing bank indebtedness. As a result of this financing, the Corporation's long-term debt to total capitalization improved from 33.3% as at December 31, 1998 to 24.2% as at December 31, 1999. As well, due to the interest income generated from net cash proceeds of the offering, as well as from investments in loans to various hotel owners, the Corporation realized net interest income during the year for the first time since 1991.
- **Y2K:** The Corporation successfully completed and implemented its multi-phased year 2000 plan at its corporate office and managed properties, which ensured that all critical systems were year 2000 compliant.

Operational and Financial Review and Analysis

Four Seasons has two operating segments: management operations and ownership operations. It is Four Seasons' objective to maximize its operating earnings from the management operations segment, and generally to make investments in the ownership of hotels, resorts and Residence Clubs only where required to secure additional management opportunities or to improve the management fee arrangements for existing hotels. Revenues from management operations and ownership operations as a percentage of total combined consolidated revenues are set forth in the following table. The table also includes earnings before other operating items, interest and taxes ("EBITDA") from management operations and ownership operations, as a percentage of total EBITDA. The significant increase in the percentage of consolidated revenues and EBITDA from ownership operations in 1997 from 1996, is due to the consolidation of the operating results of The Pierre in New York and the Four Seasons Hotel Vancouver beginning in 1997. Largely as a result of the disposition of the Corporation's interest in The Ritz-Carlton Hotel Chicago at the beginning of 1998, these percentages decreased significantly in 1998, in line with the Corporation's overall objective of reducing its total exposure to the ownership of hotels.

	1999	1998	1997	1996	1995
As a percent of consolidated revenues:					
Revenues from management operations	**51.9%**	51.2%	44.1%	78.3%	65.2%
Revenues from ownership operations	**47.7**	50.5	56.3	14.6	31.2
Distributions from hotel investments	**3.0**	1.1	2.6	7.8	4.6
Fees from ownership operations to management operations	**(2.6)**	(2.8)	(3.0)	(0.7)	(1.0)
	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA(1)					
Management operations	**91.4%**	90.7%	80.5%	86.2%	77.4%
Ownership operations	**8.6**	9.3	19.5	13.8	22.6
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Earnings before other operating items, interest and taxes.

Management Operations

Four Seasons is principally a management company, with 1999 management earnings representing approximately 91% of total earnings before other operating items, interest and taxes. Under its management agreements, Four Seasons generally supervises all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, Four Seasons receives a variety of fees, including a base fee calculated as a percentage of gross operating revenues of each hotel. In addition, Four Seasons typically receives an incentive fee based on the operating performance of each hotel.

Through economies of scale, coordinated international marketing efforts, detailed labour management controls and food and beverage purchasing systems, Four Seasons generally has enhanced the overall profitability of hotels under its management. As a result of various management tools and cost control techniques, the gross operating profit margin of the Core Hotels has improved from 29.9% in 1995 to 35.6% in 1999 (calculated as a percentage of hotel gross operating revenues). These hotel profitability improvements have, in turn, increased the incentive fees earned by the Corporation.

In addition to overseeing day-to-day operations of its hotels, Four Seasons provides management services, including developing and implementing sales and marketing strategies, operating a central reservations system, assisting with sourcing the financing of and managing the development of new hotels, providing advice with respect to the design and construction of new or renovated hotels, assisting with the refurbishment of hotels, and providing a centralized purchasing system for hotel goods.

Management's Discussion and Analysis (continued)

General and administrative expenses for management operations are incurred by the Corporation to provide the management services outlined in the previous paragraph, together with and including those items normally associated with corporate overhead, such as operations, finance, information technology, accounting, control, planning, legal, development and other costs of maintaining the corporate office.

The Corporation's general and administrative expenses are relatively stable. As a result, the Corporation derives substantial operating profit leverage from increases in management fees from existing agreements and the addition of new management contracts. From 1995 to 1999, management revenues and management earnings before other operating items have grown at compounded annual growth rates of 13.0% and 14.6%, respectively. During the same period, management earnings before other operating items as a percentage of management revenues (management profit margin) increased from 58.5% to 61.9%. Management revenues and earnings are expected to increase in 2000 and beyond as a result of (i) anticipated RevPAR and profitability improvements of Core Hotels, (ii) a full year of management fees from the properties opened in 1999, (iii) the addition of management fees from properties added to the portfolio in 2000, (iv) increased fees from Residence Club projects, (v) royalty and licence fees from branding of residential projects, and (vi) licensing fees from new Regent branded hotels.

Ownership Operations

Ownership earnings include the consolidated results of The Pierre in New York (100%), the Four Seasons Hotel Vancouver (100%), and, from November 30, 1999, the Four Seasons Hotel Berlin (100% – see further discussion on page 35). Through December 31, 1997, hotel ownership earnings also included the consolidated results of The Ritz-Carlton Hotel Chicago (25%). In addition, the Corporation recognizes as revenue dividend distributions in respect of its 25% interest in The Regent Hong Kong and the profit distribution from its other minority interests.

In 1998, the Corporation disposed of its 25% interest in The Ritz-Carlton Hotel Chicago in exchange for the elimination of certain management agreement termination provisions. In a separate transaction the management terms of this agreement were also enhanced.

Leasehold Interests

The Corporation was in discussions with the landlords of the Four Seasons Hotel Vancouver and The Pierre in New York to revise their respective lease structures to allocate major capital expenditure requirements, and in the case of Vancouver, property taxes, more equitably between the parties.

To preserve its economic interest in the Vancouver leasehold, the Corporation gave notice in 1998 to the landlord of its intention to renew the lease for the Four Seasons Hotel Vancouver for a further 20-year period beginning in 2000. The Corporation has now commenced legal proceedings relating to prior payments of the property taxes. In addition, the Corporation has commenced arbitration proceedings to resolve future payments of the property taxes. The extended lease terms are generally consistent with the existing lease, which provides for a maximum lease payment of approximately $2.2 million annually, the same rate in existence since the inception of the lease in 1976.

For the same economic and strategic business reasons as for the lease renewal for the Four Seasons Hotel Vancouver, the Corporation renewed the leases for The Pierre for a further 10-year period. The extended lease terms are consistent with the existing leases, which provide for lease payments of approximately US$4 million per year.

There is no third party debt associated with the Corporation's leasehold interest relating to either The Pierre or the Four Seasons Hotel Vancouver.

Four Seasons Hotel Berlin

In 1991 Four Seasons entered into an operating lease to acquire the management of the Four Seasons Hotel Berlin. In addition to the lease, the Corporation had a capital exposure to the project of DM7 million, in the form of a bank loan guarantee, which was accrued by the Corporation in 1995 and fully funded during 1998. The hotel opened in September 1996; however, the effective date of the commencement of the lease was postponed, as a result of a dispute with the owner arising from certain construction deficiencies alleged by the Corporation relating to the hotel.

In late 1999, the Corporation and the owner settled the dispute. The settlement provides for, among other things: (i) an effective lease commencement date of January 1, 1999, (ii) a limitation on the Corporation's exposure for the payment of minimum rent, to a maximum amount of DM21 million over the 20-year initial term of the lease, and (iii) repair of the construction deficiencies relating to the hotel at the landlord's expense to a maximum amount of DM2.9 million.

In 1998 and through November 1999, the Corporation accrued for the operating results of the hotel using the equity basis of accounting. Once the amended lease was signed in November 1999, the Corporation began consolidating the operating results of the hotel. The hotel's 1999 operating loss was $1 million, and is expected to be approximately $2.5 million in 2000, due to a scheduled increase in the base rent expense. However, the long-term outlook for the hotel is expected to be favourable once construction is completed in the vicinity of the hotel and the Berlin hotel market stabilizes to higher occupancy levels (due to the relocation of the federal government to Berlin in 1999 and the expected relocation of various corporate offices to the area over the next few years).

Four Seasons Hotel London

The Corporation holds two loans receivable in the aggregate amount of £22.5 million (approximately $57 million), plus an investment of £4.1 million (approximately $10 million) in preferred shares, in connection with the Four Seasons Hotel London. These amounts represent two loans to, and an investment in, a Kingdom corporation resulting from two separate transactions (1995 and 1998) in which the Corporation and Kingdom ultimately acquired a 12.5% and 87.5% interest, respectively, in the hotel.

The first loan, which has a balance of £10.3 million (approximately $26 million) as at December 31, 1999, represents part of the consideration received by the Corporation when it sold its 50% interest in the hotel to Kingdom in 1995. The loan is a cash flow bond secured by the transferred interest in the hotel and bears interest at 10% per annum.

The second loan, which has an outstanding balance of £12.2 million (approximately $31 million), together with the investment in preferred shares, resulted from a transaction in which the other 50% owner of the hotel sold its interest to Kingdom (37.5%) and the Corporation (12.5%) in the first quarter of 1998. This loan bears interest at 10% per annum and the preferred shares bear a cumulative annual dividend of 10%, both payable from the cash flow of the hotel. The loan is secured by the related interest in the hotel. Concurrent with this transaction, the Corporation's management arrangements for the hotel were reorganized and improved.

Other Ownership Interests

As at December 31, 1999, Four Seasons had minority investments in five hotels and resorts under management (Punta Mita, Mexico (31%), Sydney (15.2%), Aviara (7.3%), Scottsdale (3.9%) and Seattle (3.4%)) and had minority investments in three of the hotels and resorts under construction or development (Nile Plaza, Cairo (9%), Budapest (19.5%) and Amman, Jordan (12.3%)). The Corporation also has an investment in a hotel currently under construction in Prague (66.7%). However, this ownership interest is expected to be reduced prior to completion of construction of the hotel, as the Corporation is in discussions with prospective equity partners to purchase some or all of the Corporation's position.

Management's Discussion and Analysis (continued)

In accordance with Canadian generally accepted accounting principles, Four Seasons accounts for all of these investments on a cost basis because either the percentage ownership and structure does not give the Corporation significant influence over these investments, or the investments were made with the intention that they be disposed of in the foreseeable future. The book value of these hotel ownership interests was $90.9 million as at December 31, 1999 ($51.6 million as at December 31, 1998). Based upon the current and budgeted operating cash flow of each of these properties (adjusted for expected capital spending requirements) and recent comparable luxury hotel sales, the Corporation currently estimates that the net recoverable value from each of these investments at least approximates the book values of each of these investments (see note 5 to the consolidated financial statements).

None of these investments is material to the Corporation and each of these investments individually represents 5% or less of the total assets of the Corporation. The Corporation has no recourse debt obligations relating to these interests, other than those disclosed in note 14(c) to the consolidated financial statements. For the year ended December 31, 1999, the Corporation earned $13.5 million ($10.1 million in 1998) of fee revenues and received distributions of $4.1 million ($702,000 in 1998) from these hotel investments.

During the first quarter of 1998, the Corporation disposed of its 7.7% interest in the Four Seasons Hotel Chicago in exchange for the elimination of certain funding obligations.

Four Seasons Residence Clubs

The book value of the Corporation's ownership interests in Four Seasons Residence Clubs was $8.1 million as at December 31, 1999 ($6.9 million at December 31, 1998). This amount includes the Corporation's minority interest in the projects located at Aviara in Carlsbad, California; Scottsdale, Arizona and Punta Mita, Mexico. Sales of interests in the Four Seasons Resort Club Aviara and the Four Seasons Resort Club Scottsdale began in 1997 and 2000, respectively, and are expected to begin later in 2000 at the Four Seasons Residence Club Punta Mita. The Corporation earned fee revenues of $5.8 million in 1999 ($2.1 million in 1998) from these projects.

Results of Operations

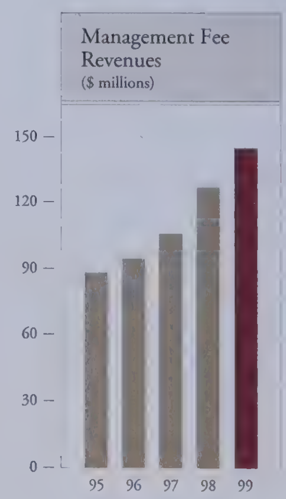
Year ended December 31, 1999 compared to year ended December 31, 1998

Management Operations

Revenues

Fee revenues increased $17.1 million or 13.4% to $144 million in 1999, as compared to $126.9 million in 1998. The increase is attributable to increased fees from Four Seasons Residence Club projects of $3.2 million, an increase in fees from hotels and resorts under development of $2.1 million, an increase in fees from recently opened hotels and resorts and new management agreements of $1.9 million, and an increase in fees from existing hotels and resorts of $9.9 million. Incentive fees contributed 24.4% of the total fee revenues in 1999, as compared to 25.3% in 1998.

Total revenues of all managed hotels and resorts increased to $2.4 billion in 1999, as compared to $2.3 billion in 1998. Growth in revenues was driven by strong performances in the United States, Asian and Canadian/Mexican markets, offset by a weaker performance in the European markets. The decline in European performance was primarily attributable to reduced occupancy at the Four Seasons Hotel Istanbul resulting from disrupted travel in the region due to a series of severe earthquakes. In addition, during 1998, Lisbon hosted Expo. As a result, that market experienced lower occupancy levels in 1999, as compared to 1998.



On a US dollar basis, the Corporation's Core Hotels under management in the Unites States, Asia and Canada/Mexico experienced an average increase in RevPAR of 6.0%, 4.7% and 4.7%, respectively, and an average increase in gross operating profit of 12.4%, 18.8% and 11.9%, respectively, in 1999, as compared to 1998. The aforementioned decline in occupancies in two of the Corporation's European hotels during 1999 resulted in an average decline of 3.1% in RevPAR and 4.4% in gross operating profit in Core Hotels under management in that region. Overall, the Corporation's Core Hotels showed an average increase of 5.3% in RevPAR in 1999, as compared to 1998, resulting from an increase in occupancy of 0.5% and an increase in room rates of 4.5%. Gross operating profit of the Core Hotels increased overall on average by 11.4% in 1999, as compared to 1998, due to increased RevPAR and enhanced operating efficiencies.

In 2000, the Corporation expects RevPAR and gross operating profits in its Core Hotels to increase by more than 5% in the United States, Europe and Canada/Mexico, while RevPAR and gross operating profits are expected to increase by more than 6% in its Asian Core Hotels, as compared to 1999. The expected increases in the United States, European, Asian and Canadian/Mexican Core Hotels are expected to result from a combination of increases in both occupancy and room rates.

The Corporation expects fee revenues to increase by more than 15% in 2000 over 1999, primarily as a result of (i) anticipated RevPAR and profitability improvements of Core Hotels, (ii) a full year of management fees from the properties opened in 1999, (iii) the addition of management fees from properties added to the portfolio in 2000, (iv) increased fees from Residence Club projects, (v) royalty and license fees from branding of residential projects and (vi) licensing fees from new Regent branded hotels.

General and Administrative Expenses

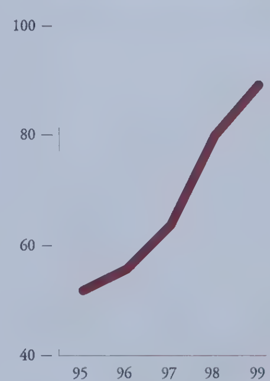
In 1999, general and administrative expenses increased by $7.8 million or 16.6%, as compared to 1998. Other than the costs related to an increase in fees in the reservation, sales and marketing areas, which are on a cost recovery basis, the increase was due primarily to investments in technology and increased staff levels, to facilitate the Corporation's unit growth expansion over the next few years. In 2000, the increase in general and administrative expenses is expected to be approximately 10%, due to the full year impact of the increases in staffing incurred in 1999, and the directly proportional increase in expenses relating to the increase in fees in the reservations, sales and marketing areas.

Management Earnings

As a result of the changes in management revenues and expenses discussed above, the Corporation's management earnings increased by $9.2 million or 11.6% to $89.1 million in 1999. Management earnings represented 91% of the Corporation's earnings before other operating items in 1999 and 1998. The Corporation expects that in 2000, 90% or more of its operating earnings will continue to be derived from its management operations.

With the combination of strong management revenue growth in 2000, and the expected increase in its cost base, the Corporation currently anticipates that the management operations profit margin in 2000 should be approximately 64%.

Management Earnings ($ millions)



Ownership Operations

Ownership earnings in 1999 increased 2.4% to $8.4 million, as compared to $8.2 million in 1998. The increase in ownership earnings reflects (i) an increased dividend from The Regent Hong Kong, (ii) increased distributions from the Corporation's other minority interests, and (iii) operating earnings improvements at The Pierre in New York. This increase was partially offset by lower operating earnings from the Four Seasons Hotel Vancouver caused by weak economic conditions in that market.

Management's Discussion and Analysis (continued)

The increase in dividends from the Corporation's 25% interest in The Regent Hong Kong resulted from operating improvements at the hotel. The hotel realized a 6% increase in RevPAR and a 36% increase in gross operating profit in 1999, as compared to 1998, due to higher demand levels and the full implementation of a wide range of cost efficiency measures at the hotel. As a result, the distributable earnings from the hotel increased from $2.0 million in 1998 to $4.6 million in 1999 (see discussion under "Dependence on Management Agreements" on page 45).

During 1999, the Corporation resolved its dispute with the landlord of the Four Seasons Hotel Berlin regarding certain construction deficiencies. The deficiencies will be rectified and the Corporation has assumed the 100% leasehold interest in the Four Seasons Hotel Berlin. Prior to the resolution of the dispute, the Corporation had been accruing the start-up losses of the hotel since 1998. As of the date of the settlement (November 30, 1999), the Corporation began consolidating the results of the hotel.

Ownership earnings are expected to increase in 2000, as compared to 1999, primarily as a result of anticipated improvements in operating conditions in the New York, Hong Kong and Vancouver markets. This improvement will be partially offset by higher operating losses at the Four Seasons Hotel Berlin due to higher scheduled lease payments in 2000.

Other Items

Depreciation and Amortization

Depreciation and amortization expense in 1999 was $12.5 million, as compared to $15.2 million in 1998. The decrease of 17.6% is attributable primarily to lower amortization charges related to the Corporation's Asian assets (which were written down during 1998), partially offset by an increase in amortization expense related to certain fixed assets. Depreciation and amortization is expected to increase in 2000 by approximately $1.3 million, as compared to 1999, due to an anticipated increase in amortization expense relating to investments in management contracts.

Other Operating Income, Net

Other operating income increased $1.5 million to $3.6 million in 1999, as compared to $2.1 million in 1998. In 1999, other operating income was comprised of a recovery of loss of $6 million (resulting from the collection of loans which were fully provided for in prior years), partially offset by a foreign exchange loss of $2.4 million (resulting primarily from the translation of US dollar net monetary assets). In 1998, other operating income included a foreign exchange gain of $14.3 million (primarily comprised of a foreign exchange gain of $7.8 million resulting from the repatriation of funds by the Corporation from its principal Asian subsidiary, and a foreign exchange gain of $6.2 million resulting from the translation of foreign denominated long-term receivables) and a recovery of $0.9 million (resulting from the collection of a loan which was fully provided for in prior years). Partially offsetting this income was a writedown of the Corporation's Asian assets in 1998 of $12.7 million and a loss on repurchase of debt of $0.4 million.

Net Interest Income (Expense)

The Corporation had net interest income in 1999 of $0.4 million, as compared to net interest expense of $3.8 million in 1998. The decrease of $4.2 million in net interest costs is attributable to increased interest income, primarily from increased cash reserves (resulting from the issue of convertible notes in late 1999), and from loans related to the Four Seasons Resort and Resort Club in Scottsdale and The Regent Hotel in Sydney, partially offset by higher interest expense due to higher debt levels in 1999 resulting from the issuance of convertible notes in 1999 (see discussion under "Debt and Equity Financing" on page 41).

Net interest income in 2000 is expected to increase over 1999 due primarily to interest generated from the Corporation's cash reserves and from higher deposit interest rates expected in 2000.

Income Tax Expense

The Corporation's effective tax rate in 1999 was approximately 2.8%, as compared with a 2.0% effective tax rate in 1998. The low effective tax rate was due primarily to the utilization of the benefits of unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995. The Corporation is expected to realize a more normalized effective tax rate, in the mid-20% range, in the year 2000 (see "Change in Accounting Policies" on page 44).

Net Earnings and Earnings per Share

Net earnings and earnings per share in 1999 were $86.5 million and $2.52 per share, respectively, as compared with net earnings of $69.7 million and earnings per share of $2.06 in 1998. The 24.1% increase in net earnings and 22.3% increase in earnings per share resulted from strong growth in management operations, lower depreciation and amortization expense and net interest income in 1999, as compared to net interest expense in 1998.

Year ended December 31, 1998 compared to year ended December 31, 1997

Management Operations

Revenues

Fee revenues increased $20.9 million or 19.8% to $126.9 million in 1998, as compared to $106 million in 1997. The increase is attributable to increased fees from hotels with revised management agreements of $9.1 million, an increase in fees from recently opened hotels and new management agreements of $4.3 million, an increase in fees from hotels under development of $2.8 million, and an increase in other fees of $4.7 million. Incentive fees contributed 25.3% of the total fee revenues in 1998, as compared to 23.2% in 1997.

Total revenues of all managed hotels increased to $2.3 billion in 1998, as compared to $2.1 billion in 1997. Growth in revenue was driven by continued strong performance in both the North American and European markets, offset by a weak performance in the Asian markets. On a US dollar basis, the Corporation's Core Hotels under management in North America and Europe experienced an average increase in RevPAR of 7.9% and 6.9%, respectively, and an average increase in gross operating profit of 14.3% and 8.4%, respectively, in 1998, as compared to 1997. The continuing difficult economic conditions in Asia during 1998 resulted in an average decline of 27.3% in RevPAR and 32.7% in gross operating profit in Core Hotels under management in that region. Compared to 1997, this resulted in a reduction of approximately US$4 million in management and incentive fee revenues from the Asian hotels. As a result, the Corporation's Core Hotels showed an average overall decrease of 0.7% in RevPAR in 1998, as compared to 1997, resulting from a decrease in occupancy of 3.2% which was only partially offset by an increase in room rates of 3.9%. In spite of the RevPAR decrease experienced in 1998, gross operating profit of the Core Hotels increased on average by 1.3% in 1998, as compared to 1997, due to enhanced operating efficiencies.

General and Administrative Expenses

In 1998, general and administrative expenses increased by $4.7 million or 11.2%, as compared to 1997, due to increased staff levels necessary to facilitate the Corporation's unit growth expansion over the next few years, as well as an increase in fees in the reservation, sales and marketing areas, which are on a cost recovery basis.

Management Earnings

As a result of the changes in management revenues and expenses discussed above, the Corporation's management earnings increased by $16.2 million or 25.5% to $79.9 million in 1998. Management earnings represented 91% of the Corporation's earnings before other operating items in 1998, as compared to 81% in 1997. The increase was due to the improvement in management earnings in 1998 combined with a reduction in ownership earnings in 1998, as discussed below.

Management's Discussion and Analysis (continued)

Ownership Operations

Ownership earnings in 1998 decreased 47.1% to $8.2 million, as compared to $15.4 million in 1997. The decrease in ownership earnings reflects (i) the disposition of the Corporation's 25% interest in The Ritz-Carlton Hotel Chicago effective January 1, 1998, (ii) the inclusion of start-up operating losses from the Four Seasons Hotel Berlin, and (iii) a reduced dividend from The Regent Hong Kong. This decrease was partially offset by operating improvements at The Pierre in New York.

The decrease in dividends from the Corporation's 25% interest in The Regent Hong Kong was caused by continuing decline in city-wide demand levels due to the city and regional economic crisis. The hotel realized a 40% decline in RevPAR and a 47% decline in gross operating profit in 1998, as compared to 1997, due to the lower demand levels. As a result, the distributable earnings from the hotel decreased from $6 million in 1997 to $2 million in 1998. The Corporation has now instituted a wide range of cost efficiency measures at the hotel which are intended to allow the hotel to maintain reasonable levels of profitability at these lower RevPAR levels.

The Pierre in New York realized increases in RevPAR and gross operating profit of 13% and 21%, respectively, in 1998, as compared to 1997. The hotel benefited from continued strong demand levels, and no new supply of competitive luxury rooms in the New York market.

Other Items

Depreciation and Amortization

Depreciation and amortization expense in 1998 was $15.2 million, as compared to $15.8 million in 1997. This decrease of 3.7% is attributable primarily to the disposition of the Corporation's 25% interest in The Ritz-Carlton Hotel Chicago, partially offset by an increase in amortization expense related to management contracts.

Other Operating Income (Expense), Net

Other operating income in 1998 was $2.1 million, as compared to other operating expense in 1997 of $12 million. In 1998, other operating income included a foreign exchange gain of $14.3 million (primarily comprised of a foreign exchange gain of $7.8 million resulting from the repatriation of funds by the Corporation from its principal Asian subsidiary, and a foreign exchange gain of $6.2 million resulting from the translation of foreign denominated long-term receivables) and a recovery of $0.9 million (resulting from the collection of a loan which was fully provided for in prior years). Partially offsetting this income was a writedown of the Corporation's Asian assets in 1998 of $12.7 million and a loss on repurchase of debt of $0.4 million. During 1997, the Corporation repurchased US$101.5 million of its 9 1/8% Notes which resulted in an accounting loss of $12 million.

Net Interest Expense

Net interest expense in 1998 declined 57.4% to $3.8 million from $8.9 million in 1997. This decrease is attributable to: (i) lower interest rates resulting from the refinancing of the 9 1/8% Notes in mid-1997 with 6% debentures (the Corporation's weighted average cost of debt in 1998 was 6.5%, as compared to 8.4% in 1997), (ii) lower debt levels outstanding throughout 1998, as compared to 1997, and (iii) increased interest income, primarily from the loan made in late 1997 to the owner of the Four Seasons Hotel George V, Paris and from the note received on the sale of the Inn on the Park in Toronto in 1996 (partially offset by a reduction in interest income from cash reserves during 1998).

Income Tax Expense

The Corporation's effective tax rate in 1998 was 2.0%, as compared with a 3.8% effective tax rate in 1997. The low effective tax rate is due primarily to the utilization of the benefits of the unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995.

Net Earnings and Earnings per Share

Net earnings and earnings per share in 1998 were $69.7 million and $2.06 per share, respectively. Excluding the foreign exchange gain of $14 million, the provision for loss of $12.7 million, and the loss on repurchase of debt of $0.4 million, normalized net earnings were $68.8 million and normalized earnings per share were $2.04 in 1998. Net earnings in 1997 were $40.8 million and earnings per share were $1.24. Excluding the $12 million loss on repurchase of debt, normalized net earnings were $52.8 million and normalized earnings per share were $1.61 in 1997. The 30.4% increase in normalized net earnings and 26.7% increase in normalized earnings per share resulted from strong growth in management operations and lower net interest costs resulting from lower interest rates, declining debt levels and increased interest income in 1998, partially offset by a decrease in ownership earnings.

Liquidity and Capital Resources

Four Seasons generally funds its capital and operating requirements from cash reserves, cash flow from operations and its available bank lines. The Corporation utilizes cash from operations, debt facilities and equity financing to (i) make capital investments to obtain long-term management agreements and to enhance existing management agreements, (ii) fund its share of hotel capital improvements and operating requirements where it holds an equity interest and where the operating cash flow from these hotels is insufficient to fund these requirements, and (iii) make principal and interest payments on corporate debt.

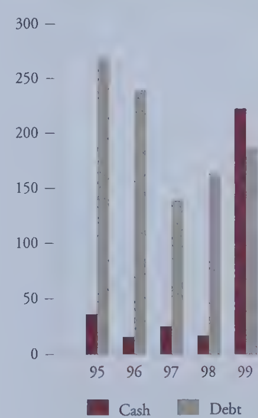
In 2000, based upon the current business plan, the Corporation expects total capital spending of approximately $100 million, including dividends and those items noted on pages 43 and 44, which will be funded from cash reserves and cash generated by operations.

Debt and Equity Financing

During 1999, FSHI issued US$655.5 million principal amount at maturity (September 23, 2029) of convertible notes for gross proceeds of US$172.5 million. The net proceeds of the issuance, after deducting offering expenses and underwriter's commission, were approximately US$166 million. At any time on or before the maturity date, unless the notes have previously been redeemed or purchased, holders may require FSHI to convert the notes (each one thousand US dollar principal) into 5.284 Limited Voting Shares. FSHI has the right to acquire for cash the notes that a holder has required to be converted. The conversion rate may be adjusted for certain reasons, but will not be adjusted for accrued interest.

Holders also have the right to require FSHI to purchase all or a portion of their notes on September 23, 2004, September 23, 2009 and September 23, 2014 in consideration for Limited Voting Shares. FSHI has the right to acquire for cash all or a portion of the notes that a holder has required to be so purchased. In addition, upon a change in control of FSHI occurring on or before September 23, 2004, FSHI will be required to offer to purchase all the notes for cash at the issue price plus accrued interest to the date of purchase. FSHI may redeem all or a portion of the notes at any time on or after September 23, 2004 for cash at the issue price plus accrued interest to the date of purchase.

Year-End Cash/ Debt Balances
($ millions)



The net proceeds of the issue were used to repay all amounts owed under the Corporation's bank credit facility, with the remainder being invested in bank deposits, guaranteed investment certificates and money market funds held with major financial institutions.

Management's Discussion and Analysis (continued)

During 1998 and 1997, the Corporation repurchased its 9 1/8% Notes (in 1998 US$6 million for US$6.2 million, in 1997 US$101.5 million for US$108.5 million). The repurchase in 1997 was funded by proceeds from cash reserves and the issuance of $100 million unsecured five-year debentures due 2002, which bear interest at 6% per annum. The balance of the Notes were repurchased in 1998 using cash on hand. The debt repurchases resulted in an accounting loss of $0.4 million in 1998 and $12 million in 1997. As a result of the debt refinancing, the Corporation was able to significantly reduce its overall cost of capital and provide greater flexibility for future financings.

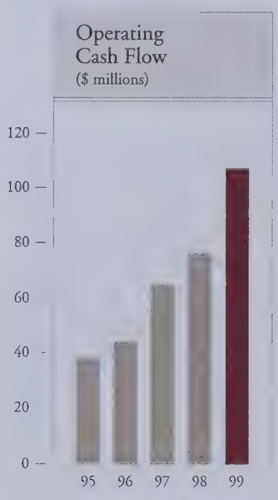
During 1997, FSHI issued 4,370,000 Limited Voting Shares ("LVS") for gross proceeds of $122.4 million. The net proceeds from the sale of the LVS, after deducting offering expenses and underwriters' commission, were $113.7 million. The Corporation used the net proceeds of the offering to repay all its existing bank indebtedness, to fund a loan in connection with acquiring the long-term management agreement for the Four Seasons Hotel George V, Paris, for investment in new hotel management agreements, and for general working capital purposes. Coincident with the equity offering, the Corporation listed its shares on the New York Stock Exchange. These steps allowed the Corporation to increase its shareholder value by diversifying its shareholder base, increasing liquidity and improving the financing alternatives available to the Corporation.

As at December 31, 1999, approximately 91% (62% at December 31, 1998 and 80% at December 31, 1997) of Four Seasons' long-term debt was at fixed interest rates.

The Corporation has a US$200 million committed bank credit facility, of which US$100 million matures in April 2002 and US$100 million matures in July 2002. As at December 31, 1999, no amounts were borrowed by the Corporation under this credit facility. The Corporation believes that its bank operating credit facilities, when combined with cash on hand and internally generated cash flow, should allow it to finance all of its normal operating needs and commitments to new investments to achieve its growth objectives.

Operating Cash Flow

For the year ended December 31, 1999, cash flow from operations was $106.8 million, as compared to $75.8 million in 1998. Working capital generated from management operations was $9.9 million higher in 1999 than in 1998, reflecting the improvement in management earnings discussed above. Interest income received increased $6 million in 1999, as compared to 1998, primarily from increased cash revenues (resulting from the issue of convertible notes in late 1999), and from the loan related to the Four Seasons Resort Scottsdale. The working capital increase was also due to an increase in change in non-cash working capital of $13.6 million in 1999, as compared to 1998.



For the year ended December 31, 1998, cash flow from operations was $75.8 million, as compared to $64.8 million in 1997. Working capital generated from management operations was $15.5 million higher in 1998 than in 1997, reflecting the improvement in management earnings discussed above. Net interest paid decreased $7.6 million in 1998, as compared to 1997, due to lower interest rates and debt levels and an increase in interest income in 1998. The working capital increase was partially offset by a reduction of working capital generated from ownership operations of $9.9 million in 1998, as compared to 1997, primarily as a result of lower ownership earnings, and a change in non-cash working capital of $3.7 million in 1998, as compared to 1997.

Operating cash flow is expected to increase to more than $110 million in 2000. The Corporation expects that more than 80% of the cash generated from operations in 2000 will be expended to generate new revenue streams, as outlined above.

Fixed Asset Additions and Improvements

Owners of properties managed by Four Seasons are contractually responsible for funding the capital requirements of the properties, including guest room and common area renovations, and for maintaining capital reserves to fund ongoing annual maintenance capital expenditures required by the management agreements. The owners annually spend an average of 4% of gross revenues on capital expenditures to maintain properties at the Four Seasons standard (other than in newly constructed or recently renovated properties where the annual amounts generally range from 1% to 2% in the years of operation following opening and major refurbishment). Capital expenditures are funded primarily by working capital generated from property operations and through advances from the owners. Four Seasons' share of these capital expenditures was $13 million, $13.9 million and $10.5 million in 1999, 1998, and 1997, respectively, for its consolidated hotels and corporate offices. The increase in 1999 and 1998, as compared to 1997, related primarily to an increase in capital expenditures at the Four Seasons Hotel Vancouver in 1999 and the expansion of the corporate office in Toronto during 1998 and 1999. Four Seasons' share of capital expenditures was immaterial for those properties in which Four Seasons has a minority equity interest or pursuant to management contract obligations.

For 2000, Four Seasons has budgeted capital expenditures of approximately $10 million in its consolidated hotels and corporate offices.

Investments in and Advances to Managed and Owned Properties

As discussed above, in order to secure a new management agreement or to improve an existing management agreement, the Corporation may at times make a loan or a minority investment. The loan or investment will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment. Depending on the nature of the loan or investment, it will be characterized as "Investments in hotel partnership and corporations," an "Investment in management contracts," or "Long-term receivables."

Investments in and Advances to Managed and Owned Properties

During 1999, the Corporation invested (i) $13.3 million ($8.8 million in 1998) in the Four Seasons Hotel under construction in Prague, in which it has a 66.7% interest, (ii) $7.8 million ($0.7 million in 1998) in the Four Seasons Resort in Scottsdale, in which its indirect equity interest was reduced to 3.9% as at December 31, 1999, (iii) $7.6 million ($2 million in 1998 and $4.7 million in 1997) in the Four Seasons Resort and Residence Club project in Punta Mita, Mexico, in which it has a 31% interest, and (iv) $0.8 million ($0.6 million in 1998 and $1.2 million in 1997) in the Four Seasons golf club at Punta Mita, in which it has a 12.3% interest. The Corporation is currently in discussions with potential new investors with the intent to reduce its equity interest in the Prague project prior to or upon completion of construction.

During 1999, the Corporation sold its direct ownership interest in the Four Seasons Resort Scottsdale and a 50% interest in two parcels of land adjacent to the resort for cash proceeds of $4.6 million (see note 5(b) to the consolidated financial statements).

For hotels in which the Corporation has less than a 20% interest, it invested $10.3 million in 1999 ($0.5 million in 1998 and $1.7 million in 1997) to fund capital requirements, primarily in hotels under construction or development. The $10.3 million advanced in 1999 related to the Four Seasons Hotel under development in Budapest, in which it has a 19.5% interest.

The Corporation received $13 million net cash proceeds in January 1997 upon the closing of the sale of the Four Seasons Hotel Toronto.

Long-term Receivables

The Corporation advanced a total of $81.0 million in 1999 in connection with projects under management: $46.2 million related to the Four Seasons Resort and Resort Club project in Scottsdale (see note 5(b) to the consolidated financial statements); $15.6 million (Australian $16.5 million) related to a major renovation project at The Regent Hotel Sydney (see note 4(c) to the consolidated financial statements); $7.1 million (£3 million) related to the Corporation's proposed

Management's Discussion and Analysis (continued)

equity interest in the Four Seasons Hotel Canary Wharf; and $4.4 million related to the Four Seasons Hotel under development in Budapest.

During 1999, the Corporation sold $29.5 million in long-term receivables related to the Four Seasons Resort project in Scottsdale (see note 5(b) to the consolidated financial statements).

In 1998, the Corporation advanced $68.5 million in connection with projects under management: $38.3 million (£16.3 million) related to the Four Seasons Hotel London (see discussion under "Four Seasons Hotel London" on page 35); $11.9 million (Australian $12.8 million) related to the Corporation's proposed equity interest in The Regent Hotel Sydney (see note 4(c) to the consolidated financial statements); and $14.9 million related to the Four Seasons Resort and Resort Club project in Scottsdale. Of the $38.5 million of long-term receivables advanced in 1997, $37.9 million (French francs 161.6 million) was advanced to an affiliate of Kingdom in connection with the acquisition of the long-term management agreement for the Four Seasons Hotel George V, Paris (see note 4(d) to the consolidated financial statements). In addition, the Corporation advanced in 1998 a total of US$1.6 million (US$5.9 million in 1997), which completed a US$7.5 million commitment, as a loan to the owner of the Four Seasons Hotel Atlanta, in connection with the long-term management agreement acquired in 1997.

Change in Accounting Policies

Effective January 1, 2000, the Canadian Institute of Chartered Accountants ("CICA") changed the accounting standards relating to the accounting for income taxes and the accounting for pension benefits.

The CICA's new standard on accounting for income taxes adopts the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Corporation's provision for estimated current income taxes payable plus the difference between the opening and ending balances of future income tax assets and liabilities.

Prior to adoption of this new accounting standard, income tax expense was determined using the deferral method. Under this method, deferred income tax expense was determined based on "timing differences" (differences between the accounting and tax treatment of items of expense or income), and was measured using the tax rates in effect in the year the differences originated. Certain deferred tax assets, such as the benefit of tax losses carried forward, were not recognized unless there was virtual certainty that they would be realized.

The Corporation has decided to adopt the new income tax accounting standard retroactively, without restating the financial statements of any prior periods. Accordingly, the Corporation estimates that it will record a credit to retained earnings as at January 1, 2000 of approximately $20 million.

The CICA's new standard on accounting for pension plans requires the use of a current settlement discount rate to measure the accrued pension benefit obligation. In addition, the Corporation will now use the corridor method to amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses). Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of accrued pension benefit obligation.

Prior to adoption of this new accounting standard, pension expense was determined using a long-term rate of return to measure accrued pension benefits, and actuarial gains and losses were amortized on a straight-line basis over the average remaining service life of the employees.

The Corporation has decided to adopt the new pension accounting standard retroactively, without restating the financial statements of any prior periods. Accordingly, the Corporation estimates that it will record a charge to retained earnings as at January 1, 2000 of approximately $4 million.

Operating Risks

The business of the Corporation, more thoroughly described above, is subject to many risks and uncertainties, including those discussed below.

Lodging Industry Conditions

Four Seasons focuses exclusively on the luxury segment of the hotel industry, which is subject to operating risks inherent in the lodging industry. These risks include, among other things, changes in general and local economic conditions, periodic overbuilding in the industry or a specific market, varying levels of demand for rooms and related services (including food and beverage and function space), competition from other hotels, changes in travel patterns, the recurring need for renovation, refurbishment and improvement of hotel and resort properties, changes in wages, prices, construction and maintenance costs that may result from inflation, government regulations and changes in interest rates, the availability of financing for operating or capital requirements, natural disasters, extreme weather conditions, labour disputes, political instability and terrorism and their effects on travel. The industry also is subject to seasonal fluctuations, resulting in variances in the Corporation's quarterly fee revenues and operating results. Four Seasons operates luxury hotels and resorts in many areas of the world and its revenues are dependent upon the revenues of individual hotels and resorts derived from all sources. The above-listed conditions can from time to time have a major adverse impact upon individual hotels or resorts or particular regions. A prolonged period of economic recession would materially and adversely affect the Corporation's results of operations, including the fee revenue that would be earned.

Competition

The luxury segment of the hotel and resort industry is subject to intense competition, both for guests and for the acquisition of new management agreements. Competition for guests arises primarily from luxury hotel chains, individual luxury hotels and resorts and a limited number of luxury properties operated by larger hotel chains. That competition is based on brand name recognition, location, room rates and quality of service and accommodations. Demographic, geographic and other changes in specific market conditions could materially and adversely affect the convenience or desirability of the locales in which hotels and resorts that are managed by Four Seasons are located.

Four Seasons competes for management opportunities with other hotel operators. Four Seasons believes that its ability to obtain management agreements is based primarily on the value and quality of its management services, brand name recognition and the economic advantages to the hotel owner of retaining Four Seasons' management services and using its brand names. Four Seasons also believes that an owner's assessment of the economic advantages of retaining Four Seasons' management services and using its brand names is, in part, a function of the success of the hotels and resorts currently under management by Four Seasons. Competitive factors also include relationships with hotel owners and investors, marketing support, reservation system capacity and the ability to make investments that may be necessary to obtain management agreements. Four Seasons' failure to compete successfully for expansion opportunities or to attract and maintain relationships with investors who currently own hotels could materially and adversely affect its results of operations.

Dependence on Management Agreements

Management agreements expire or are acquired, terminated or renegotiated in the ordinary course. Failure to obtain new management agreements or maintain existing management agreements could materially and adversely affect the Corporation's results of operations. Four Seasons manages hotels and resorts for various owners subject to the terms of each property management agreement. Those agreements generally can be terminated by the non-defaulting party upon default in payment or unremedied failure to comply with the terms of the agreement. Most of the management agreements are subject to performance tests that, if not met, could allow the agreement to be terminated by the owner prior to the expiration of its term. The failure to maintain the standards specified in the agreement or to meet the other terms and conditions of an agreement could result in the loss or cancellation of a management agreement. Typically, but not in all

Management's Discussion and Analysis (continued)

cases, Four Seasons has certain rights to cure a default to avoid termination. Some management agreements also can be terminated if the property is sold by the owner to a new owner that does not want to retain the existing agreement. In certain cases these contracts provide for a termination pay-out upon cancellation of the agreement.

In the event of bankruptcy of a property and foreclosure, a management agreement may be terminated in most jurisdictions, unless, to the extent permitted by local bankruptcy laws, the lender has executed a non-disturbance agreement. Four Seasons generally has non-disturbance agreements with the lenders to owners of hotels and resorts that it manages. Where no non-disturbance agreement is in place, the risk of loss of a management agreement increases where debt that cannot be serviced adequately is incurred by owner at the property level. In some jurisdictions, particularly the United States, management agreements have been construed by courts to create an agency relationship that is terminable by the owner, notwithstanding any provision of the agreement that purports to make the agreement not terminable. In such circumstances, the management company would generally have an unsecured claim for breach of contract against the owner of the hotel or its trustee in bankruptcy.

Management agreements for hotels and resorts managed by the Corporation currently have remaining terms (including extension periods at the Corporation's election) averaging approximately 57 years for Four Seasons hotels and resorts and approximately 21 years for Regent hotels and resorts. Only four management agreements have remaining terms of less than 10 years. Three of these relate to The Regent Hotel Taipei, The Regent Hotel Bangkok, and The Regent Hotel Singapore, which expire in 2000, 2005, and 2008, respectively. Although the management contract for The Regent Hotel Taipei expires in 2000, the annual base management fee from the hotel of US$1.9 million ceased at the end of 1998. The Corporation is currently discussing a possible extension of the management agreement. For the years ended December 31, 1999 and 1998, these three hotels contributed, in aggregate, $2.4 million and $5 million, respectively, in fee revenue. The Corporation's investment in the management agreement for The Regent Hotel Taipei has been fully amortized as at December 31, 1998.

The fourth situation relates to The Regent Hong Kong, where the initial term of both the management agreement and the operating lease expire at the end of 2000. Subsequent to December 31, 1999, the lessee exercised its option to renew the lease for an additional 10 years. Negotiations are due to commence regarding the rent payable during the renewal term. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. The Corporation does not control the management rights; however, it intends to take whatever action may be necessary to ensure management of the hotel remains with Four Seasons. There can be no assurance as to the result of the assertion of these rights.

Management fees and distributions from The Regent Hong Kong, in aggregate, accounted for approximately $8.9 million and $5.5 million of the Corporation's consolidated revenues in 1999 and 1998, respectively. Due to continuing uncertainty in Asia, the Corporation wrote off the balance of the investment in the management agreement for this hotel in 1998 (a total provision of $6 million). The book value of the investment in the leasehold interest (US$4.6 million as at December 31, 1999) is considered to be realizable out of dividend distributions over the remaining lease term and the lease renewal option.

Dependence on Property Owners

As a result of the strategic decision of Four Seasons to focus on management of hotel and resort properties (as opposed to ownership), Four Seasons' growth opportunities are dependent in part on its ability to establish and maintain satisfactory relationships with existing and new investors. Those growth opportunities also are dependent on access to capital by these investors. In 1999 and 1998, no owner had interests in any combination of hotels, resorts and Residence Club properties managed by Four Seasons that represent in excess of 10% of total consolidated revenues of the Corporation. A failure by Four Seasons to maintain satisfactory relationships with any owner of a significant number of properties could have a material adverse effect on the Corporation's results of operations.

Risk Associated with Expansion, Growth and New Construction

An element of Four Seasons' business strategy is to increase the number of hotels and resorts under management. That expansion is dependent upon a number of factors, including the identification of appropriate management opportunities, competing successfully for the management agreements relating to those opportunities, availability of financing for new developments and timely completion of construction of new hotel and resort properties (or the refurbishment of existing properties) that are, or are to be, managed by Four Seasons.

From time to time, the hotel industry has experienced periods during which financial institutions have been reluctant to provide financing for the construction of real estate properties, including hotels. The inability to obtain financing for a project will cause cancellation of, or short-term interruption in, the progress or completion of properties under construction or development. Additionally, any construction project entails significant construction risks that could delay or result in a substantial increase in the cost of construction. The opening of newly constructed properties, in particular, is contingent upon (among other things) receipt of all required licences, permits and authorizations, including local land use permits, building and zoning permits, health and safety permits and liquor licences. Changes or concessions required by regulatory authorities also could involve significant additional costs and delay or prevent completion of construction or opening of a project. As a result of the global nature of Four Seasons' business, these regulatory matters arise in a number of jurisdictions, many of which have distinctive regulatory regimes.

Guarantees

Four Seasons currently has guaranteed third party debt of US$4.5 million (approximately $6.5 million) with respect to principal and interest relating to the construction financing for the Four Seasons Resort Scottsdale at Troon North. Four Seasons has also provided an IR£3 million (approximately $6 million) guarantee to fund construction cost overruns in connection with the Four Seasons Hotel Dublin. The guarantee may only be called after the opening date of the hotel. Four Seasons has provided additional guarantees in connection with the Four Seasons Resort Club Aviara. One such guarantee was entered into to allow lenders to the project access to any distributions received by the Corporation in respect of its ownership interest in the case of a default in respect of debt related to the Resort Club. Other such guarantees, which are not material, have been entered into in the ordinary course in connection with the development of the project. Any amounts that the Corporation believes it is probable that it will have to pay on these guarantees have been provided for in the consolidated financial statements.

Until 1982, FSHL held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately $22 million (of which approximately $20.6 million plus accrued interest was outstanding as at December 31, 1999) in connection with the property and FSHL provided a several guarantee with respect to the financing. FSHL sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of FSHL's obligations under the mortgage. FSHL has been advised by the mortgagee that a default has occurred under the mortgage and the mortgagee has commenced a proceeding against Four Seasons and another guarantor. The Corporation is vigorously defending the suit and believes that, as a result of, among other things, the sale by FSHL of its interest in the property and the resulting obligations of the purchaser, obligations of FSHL, if any, to the mortgagee should be offset by corresponding claims against the purchaser.

There is no assurance that Four Seasons will not be required to pay an amount in excess of its current expectations in respect of any of these guarantees.

Investments and Advances

The Corporation has made investments in, and loans in respect of, some of the hotels and resorts that it manages to enable it to acquire the management agreements for those properties or to enhance the terms of those agreements. Currently, Four Seasons holds an ownership or leasehold interest in, or has made loans in respect of or to, 18 of the 47 hotels and resorts that it manages and has made, or expects to make, investments in, or loans in respect of, 16 of the 21 projects

Management's Discussion and Analysis (continued)

under construction or development. In addition, the Corporation has an investment in three Four Seasons Residence Club properties, two of which are currently under construction. The book value of those investments and advances as at December 31, 1999 was approximately $294 million.

In addition to the risks associated with operations of a hotel discussed above (see Lodging Industry Conditions and Competition), Four Seasons is subject to risks generally related to owning and leasing real estate in respect of these properties. These risks include, among others, adverse changes in general or local economic conditions, local real estate market conditions, property and income taxes, interest rates, the availability, cost and terms of financing, liability for long-term lease obligations, the potential for uninsured casualty and other losses, the impact of present or future legislation or regulation (including those relating to the environment), adverse changes in zoning laws and other regulations, civil unrest and political instability. In addition, investments in real estate are relatively illiquid and the ability of the Corporation to dispose of its ownership interests, particularly its leasehold interests, in response to changes in economic and other conditions may be limited. Any of these factors could result in material operating losses by a particular hotel or resort and possibly the loss of the Corporation's equity investment in the property or the inability to collect loans outstanding. Holding an interest in a hotel also introduces risks associated with funding of capital expenditures and the Corporation's proportionate share of any operating losses. Where working capital reserves provided by hotel operations are insufficient, debt service, major repairs, renovations, alterations or other capital expenditures generally must be funded by the owners of the hotels and resorts, including in some cases Four Seasons.

Government Regulation

Four Seasons is subject to laws, ordinances and regulations relating to, among other things, environmental matters, the preparation and sale of food and beverages, accessibility for disabled persons and general building and zoning requirements in the various jurisdictions in which Four Seasons manages hotels and resorts. Owners and managers of hotels also may be subject to laws governing the relationship with hotel employees, including minimum wage requirements, overtime, working conditions and work permit requirements. Compliance with these laws can affect the revenues and profits of hotels managed by Four Seasons or could materially and otherwise adversely affect Four Seasons' operations.

Four Seasons, as the current or previous owner or operator of certain hotels, could be liable for clean-up of contamination and other corrective action under various laws, ordinances and regulations relating to environmental matters. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the condition requiring environmental response. The presence of contamination from hazardous or toxic substances, or the failure to properly remediate a contaminated property, may affect an owner's ability to sell or rent the property, to use the property for its intended purpose, or to borrow using the property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the cost of removal or remediation of substances at the disposal or treatment facility regardless of whether the facility is or was owned or operated by them. In connection with the operation and ownership of various hotels, Four Seasons could be held liable for the cost of remedial action with respect to environmental matters. Four Seasons is not aware of any potential material environmental liabilities for which Four Seasons will be responsible with respect to any of the hotels in which it currently has, or previously had, an ownership interest.

Pursuant to the management agreements to which Four Seasons is a party, the owner is responsible for the costs and expenses of the employees at each hotel and for all costs, expenses and liabilities incurred in connection with the operation of the hotel, including compliance with government regulations. However, Four Seasons may be contingently liable for certain liabilities in respect of which it does not maintain insurance, including certain workers' compensation claims, environmental liabilities and, in respect of hotels in the United States, claims arising under the Americans with Disabilities Act.

Four Seasons generally obtains indemnities from the owners of the hotels that it manages in respect of these liabilities. The value of those indemnities is dependent upon the financial condition of the owners that have provided them.

Political Risk

Four Seasons currently manages and/or has an equity interest in hotels and resorts in 19 countries and currently has development plans to open hotels and resorts in 12 additional countries. In certain of these countries, from time to time, the related assets and revenues may be exposed to political risk.

Insurance

All hotels and resorts managed by Four Seasons are insured against property damage, business interruption and liability at the expense of the owner of the hotel. Under these policies Four Seasons also is insured against loss of fee income in the event of a temporary business interruption at any of the hotels and resorts that it manages. In addition, Four Seasons obtains indemnities from the owners of the hotels that it manages in respect of damages caused by acts, omissions and liabilities of the employees of the hotel or of Four Seasons, other than damages resulting from certain actions of Four Seasons and certain senior management personnel. If Four Seasons were held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial conditions could be materially and adversely affected.

Currency Exposure

Four Seasons has entered into management agreements with respect to hotels throughout the world and reports its results in Canadian dollars; however, its relevant currency risk is in US dollars, as more than half of its revenues and assets currently are US dollar denominated or, in the case of fee revenues and dividend distributions from The Regent Hong Kong, are pegged to the US dollar. In 1999, approximately 74% of the Corporation's consolidated revenues were US dollar denominated or pegged to the US dollar, compared to 72% in 1998. Four Seasons manages this currency exposure through the use of foreign exchange forward contracts. As at December 31, 1999, Four Seasons had sold forward US$124.7 million under 25 forward contracts maturing over a 25-month period. The Corporation earned 11% of its consolidated revenues in 1999 in 12 foreign currencies not pegged to the US dollar, as compared to 11% in 11 foreign currencies in 1998. Except for the pound sterling, none of the revenues in these currencies individually exceeded 3% of Four Seasons' consolidated revenues in 1999 or 1998. Four Seasons manages the pound sterling currency exposure (long-term receivables and revenues) through the use of foreign exchange forward contracts. As at December 31, 1999, Four Seasons has sold forward £35 million under five forward contracts maturing between February 2000 and March 2001.

As a result of the economic difficulties in parts of Asia over the past few years, there had been public speculation that the Hong Kong dollar peg to the US dollar could be altered or removed, potentially resulting in a significant devaluation of the Hong Kong dollar. The Corporation earned fees and dividends distributions of HK$46.8 million (approximately $8.9 million) in 1999 (HK$30.6 million (approximately $5.5 million) in 1998) from The Regent Hong Kong. A devaluation of the Hong Kong dollar could therefore result in a large reduction in Canadian dollar reported earnings by the Corporation. To counteract the impact of any devaluation in the Hong Kong dollar that may occur, the Corporation would, among other steps, price its hotel rooms in US dollars. The Corporation set up a provision in 1998 against the book value of its investment in the leasehold interest in the hotel, in part due to concerns about the potential impact of a currency devaluation.

Certain currencies are subject to exchange controls which, in practice, have never resulted in a restriction of the payment of management fees to Four Seasons. In addition, certain of these currencies are not freely traded and are relatively illiquid. To date, Four Seasons has not incurred any material losses resulting from an inability to convert these foreign currencies at favourable exchange rates. Management attempts to minimize its foreign currency risk by monitoring its cash position, keeping fee receivables current, and monitoring the political and economic climate in each country. In certain hotels, the foreign currency risks are further mitigated by pricing room rates in US dollars.

Management's Discussion and Analysis (continued)

Asian Asset Exposure

As a result of the significant currency devaluations and continuing economic downturn in parts of Asia, the Corporation in 1998 reassessed the estimated recoverable amounts of its assets located in, or related to, Asia. These assets consist primarily of the Corporation's investment in The Regent Hong Kong and its investments in management agreements related to Asia. Based on these revised estimates, the Corporation determined that certain of these assets were not recoverable from future cash flows. Accordingly, provisions for loss against these assets were recognized in 1998 (see note 2 to the consolidated financial statements). The Corporation performed a similar reassessment in 1999 and concluded that the book value of its remaining assets located in, or related to, Asia should be recoverable from future cash flows. However, these estimates are based on projections regarding future revenues of hotels located in Asia, which, in turn, are based on assumptions regarding future economic conditions in Asia. Should the underlying assumptions change, the estimated recoverable amounts would have to be adjusted accordingly, and the adjustments could be material.

Seasonality

Four Seasons' hotels are affected by normally recurring seasonal patterns and, for most of the hotels, demand is lower in December through March than during the remainder of the year. The Corporation's ownership operations are particularly affected by seasonal fluctuations, with lower revenue, operating profit and cash flow in the first and fourth quarters; ownership positions typically incur an operating loss in the first quarter of each year.

Management operations also are somewhat seasonal in nature, as fee revenues are affected by the seasonality of hotel revenues and operating results. Urban hotels generally experience lower revenues and operating results in the first and fourth quarters thereby negatively impacting management revenues. However, this negative impact on management revenues is offset, to some degree, by increased travel to resorts in those months and may be offset to a greater extent as the portfolio of resort properties managed by Four Seasons increases.

Intellectual Property

In the highly competitive service industry in which Four Seasons operates, Four Seasons has a significant number of trade names, trademarks and service marks, and significant time and effort are spent each year on surveillance, registration and protection of trade names and service marks. The loss or infringement of any of Four Seasons' trade names, trademarks and service marks could have a material adverse effect on Four Seasons.

Risks Associated with Residence Club Business

Four Seasons currently operates one Residence Club project, and is expanding its presence in the luxury segment of the interval and fractional ownership industry with two other projects currently under construction. The same risk factors affecting the luxury segment of the hotel industry, as more fully outlined above and in this "Operating Risks" section, also affect the interval and fractional ownership industry. In particular, "Lodging Industry Conditions," "Competition," "Dependence on Management Agreements," "Risk Associated with Expansion, Growth and New Construction," "Investments and Advances," "Government Regulation," "Political Risk," "Insurance," "Currency Exposure," "Seasonality" and "Intellectual Property" also apply to the interval and fractional ownership industry. Accordingly, Four Seasons' ability to successfully develop and sell interests in Residence Clubs that are built, and the various fees earned by Four Seasons from each Residence Club project, could be adversely and materially harmed by one or any combination of the above factors.

Dependence on Key Employees

The success of Four Seasons depends in part on its senior executives. In particular, senior management of Four Seasons is responsible for the development and maintenance of relationships with investors in the hotels and resorts that are managed by Four Seasons. The unanticipated departure of individuals responsible for those relationships could have a material and adverse effect for some period of time on relationships affecting properties that are, or that will be, managed by Four Seasons.

Corporate Information

Market for Securities

The Limited Voting Shares are listed on the Toronto and New York stock exchanges.

Dividend Policy

The Board of Directors of FSHI has established a policy of paying a semi-annual dividend to holders of its shares. Since 1990 and until October 3, 1996, FSHI paid semi-annual cash dividends of $0.055 per Limited Voting Share and Variable Multiple Voting Share. Since October 3, 1996, the dividend entitlement in respect of the Variable Multiple Voting Shares has been reduced to 50%, on a per share basis, of the dividend entitlement on the Limited Voting Shares. The payment of dividends in the future is subject to the Corporation's earnings and financial condition and such other factors as FSHI's Board of Directors may deem relevant. There are no restrictions currently that prevent FSHI from continuing to pay a semi-annual dividend of $0.055 per Limited Voting Share.

Directors and Officers

The following table sets forth certain information regarding each of FSHI's executive officers and directors:

Name and Residence	Position with FSHI	Principal Occupation
Isadore Sharp (1) *Toronto, Ontario*	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer, Four Seasons Hotels Limited
Edmond M. Creed (1) *Toronto, Ontario*	Director	Retired Executive
Frederick Eisen *Toronto, Ontario*	Director	President and Chief Executive Officer, The Eisen Corporation
H. Roger Garland *Toronto, Ontario*	Vice Chairman and Director	Vice Chairman, Four Seasons Hotels Limited
Nan-b de Gaspé Beaubien (1)(2)(3) *Montreal, Quebec*	Director	President, Institute for Family Enterprise and Vice Chairperson of Gasbeau Company
Charles S. Henry (1)(3)(4) *New York, New York*	Director	President, Hotel Capital Advisers, Inc.
Murray B. Koffler (3)(5) *Toronto, Ontario*	Director	Partner, The Koffler Group
J. Robert S. Prichard (2)(3) *Toronto, Ontario*	Director	President, University of Toronto
Lionel H. Schipper (1)(3)(5) *Toronto, Ontario*	Director	President, Schipper Enterprises Inc.
Anthony Sharp *Toronto, Ontario*	Director	Entrepreneur
Benjamin Swirsky (1)(5) *Toronto, Ontario*	Director	Chairman and Chief Executive Officer, ZCONNEXX Corporation
Shuichiro Tamaki *Tokyo, Japan*	Director	Advisor, Jowa Corporation
Simon M. Turner (4)(5) *Rye, New York*	Director	Principal, Hotel Capital Advisers, Inc.
Douglas L. Ludwig *Toronto, Ontario*	Executive Vice President, Chief Financial Officer and Treasurer	Executive Vice President, Chief Financial Officer and Treasurer, Four Seasons Hotels Limited
Wolf H. Hengst *Toronto, Ontario*	President and Chief Operations Officer	President and Chief Operations Officer, Four Seasons Hotels Limited
Craig O. Reith *Toronto, Ontario*	Vice President Finance and Assistant Treasurer	Vice President Finance and Assistant Treasurer, Four Seasons Hotels Limited
Kathleen Taylor *Toronto, Ontario*	President and Chief Corporate Officer	President and Chief Corporate Officer, Four Seasons Hotels Limited

(1) Member of the Compensation and Organization Committee.
(2) Elected by the holders of the Limited Voting Shares.
(3) Member of the Corporate Governance Committee.
(4) Nominee of Kingdom, which has the right pursuant to an agreement with Triples Holdings Limited and Isadore Sharp to elect two directors to the FSHI Board of Directors.
(5) Member of the Audit Committee.

Corporate Information (continued)

Edmond M. Creed, Murray B. Koffler and Isadore Sharp have served as directors of the Corporation and Four Seasons Hotels Inc.'s predecessor corporation since January 9, 1978. Frederick Eisen, H. Roger Garland and Benjamin Swirsky were elected to the Board of Directors of Four Seasons Hotels Inc.'s predecessor corporation on October 1, 1985. Lionel H. Schipper was appointed to the Board of Directors on February 18, 1988. Shuichiro Tamaki was appointed to the Board of Directors on April 18, 1991. Charles S. Henry was appointed to the Board of Directors on November 11, 1994. J. Robert S. Prichard was appointed to the Board of Directors on March 6, 1996. Simon M. Turner was appointed to the Board of Directors on January 2, 1997. Nan-b de Gaspé Beaubien was elected to the Board of Directors on May 23, 1997. Anthony Sharp was appointed to the Board of Directors on August 25, 1999.

All of the Directors will hold office until the next annual meeting of shareholders, or until their successors are elected or appointed. All of the officers and directors of Four Seasons Hotels Inc. have held their principal occupations for more than five years with the exception of: Benjamin Swirsky who was Chairman of PC Docs Group prior to June 30, 1999, was President and Chief Executive Officer of Beswir Capital Inc. prior to November 1998, and was President and Chief Executive Officer of Slater Steel, Inc. prior to February 1998; Simon Turner who was a Director of the Investment Banking department of Salomon Brothers Inc. prior to May 1996; Douglas Ludwig who was Senior Vice President, Chief Financial Officer and Treasurer prior to January 1997; Anthony Sharp who was Executive Vice President, Vacation Ownership of the Corporation prior to September 7, 1999, and was Vice President, Vacation Ownership of the Corporation prior to January 1998; Wolf H. Hengst who was Executive Vice President, Operations of the Corporation prior to November 1, 1999, and was President of Regent International Hotels Limited prior to March 1998; and Kathleen Taylor who was Executive Vice President and Chief Corporate Officer prior to November 1, 1999, was Executive Vice President, Corporate Planning and Development and General Counsel prior to April 25, 1998, and was Senior Vice President, Corporate Planning and Development and General Counsel prior to January 1, 1997.

The directors and senior officers of Four Seasons Hotels Inc., as a group, own beneficially, directly or indirectly, or exercise control or direction over, the following number of LVS and Variable Multiple Voting Shares:

Description of Class	No. of Shares	Percentage of Class
Limited Voting Shares	492,236	1.61%
Variable Multiple Voting Shares	3,986,872	100%

Additional Information

Four Seasons shall provide to any person, upon request to the office of the Secretary of Four Seasons Hotels Inc. at 1165 Leslie Street, Toronto, Ontario, Canada M3C 2K8 (telephone (416) 449-1750):

(a) when the securities of Four Seasons Hotels Inc. are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
   - (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form,
   - (ii) one copy of the comparative financial statements of Four Seasons for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statements of Four Seasons subsequent to the financial statements for its most recently completed financial year,
   - (iii) one copy of the Management Information Circular of Four Seasons Hotels Inc. prepared for the most recent Annual Meeting of Shareholders, and
   - (iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that in either case Four Seasons may require the payment of a reasonable charge if the request is made by a person who is not a security holder of Four Seasons Hotels Inc.

Additional information relating to Four Seasons, including directors' and officers' remuneration and indebtedness, interests of insiders in material transactions, principal holders of securities of Four Seasons Hotels Inc. and options to purchase securities is contained in Four Seasons Hotels Inc.'s Management Information Circular prepared for the most recent Annual Meeting of Shareholders. Additional financial information, including consolidated comparative audited financial statements for the years ended December 31, 1998 and 1999, is provided in Four Seasons' 1999 Annual Report.

A copy of such documents may be obtained upon request from the Secretary of Four Seasons Hotels Inc. at the address and telephone number noted above.

Corporate Chart

The following chart illustrates Four Seasons' corporate structure, and includes corporations in which Four Seasons has a significant interest, either directly or indirectly, and their jurisdictions of incorporation or organization.

Corporation	Interest
FOUR SEASONS HOTELS INC. (Ontario Corporation)	
FOUR SEASONS HOTELS LIMITED [A] (Ontario Corporation)	100% [B]
FOUR SEASONS HOTELS AND RESORTS B.V. [C] (Netherlands Corporation)	100% [D]
FOUR SEASONS HOTELS AND RESORTS ASIA PACIFIC PTE LTD. [C] (Singapore Corporation)	100% [D]
FOUR SEASONS HOTELS (BARBADOS) LTD. (Barbados Corporation)	100% [D]
FSR INTERNATIONAL HOTELS LIMITED (Hong Kong Corporation)	100% [D]
EURASIA HOTEL LIMITED (Hong Kong Corporation)	25% [D]

Notes:

(A) The management of Four Seasons hotels in North America is generally carried out by Four Seasons Hotels Limited.

(B) Direct.

(C) The management of Four Seasons hotels outside North America and Regent Hotels is generally carried out by Four Seasons Hotels and Resorts B.V. and Four Seasons Hotels and Resorts Asia Pacific Pte Ltd.

(D) Indirect.

Management's Responsibility for Financial Reporting

The management of Four Seasons Hotels Inc. is responsible for the preparation and integrity of the financial statements and related financial information of the Corporation and the selection of accounting principles appropriate to the Corporation's circumstances. The consolidated financial statements, notes and other financial information included in the Annual Report were prepared in accordance with accounting principles generally accepted in Canada. The statements also include estimated amounts based on informed judgments of current and future events, for items such as the useful lives of capital assets and provisions for impairment in the value of assets. These estimates are made with appropriate consideration of the materiality of the amounts involved. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management is also responsible for maintaining a system of internal controls and budgeting procedures which are designed to provide reasonable assurance that assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, and relevant and reliable financial information is produced. To augment the internal control system, the Corporation maintains a program of internal audits covering significant aspects of the operations.

The Corporation's Audit Committee is appointed by the Board of Directors annually. The Committee meets with the internal and independent auditors (who have free access to the Audit Committee) and with management, to satisfy itself that each group is properly discharging its responsibilities, and to review the financial statements, the independent auditors' report and other financial information appearing in the Corporation's Annual Report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.

KPMG LLP, the independent auditors appointed by the shareholders of the Corporation, have examined the financial statements in accordance with generally accepted auditing standards.

Isadore Sharp
Chairman and Chief Executive Officer

Douglas L. Ludwig
Chief Financial Officer,
Executive Vice President and Treasurer

February 16, 2000

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1999 and 1998 and the consolidated statements of operations, retained earnings, cash provided by operations and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 16, 2000

KPMG LLP
Chartered Accountants

Consolidated Statements of Operations

Years ended December 31, 1999 and 1998 *(In thousands of dollars except per share amounts)*	1999	1998
Consolidated revenues	$ 277,548	$ 247,941
Management Operations:		
Revenues	$ 143,984	$ 126,947
General and administrative expenses	(54,858)	(47,064)
	89,126	79,883
Ownership Operations:		
Revenues	132,371	125,218
Distributions from hotel investments	8,310	2,732
Expenses:		
Cost of sales and expenses	(125,214)	(112,839)
Fees to Management Operations	(7,117)	(6,956)
	8,350	8,155
Earnings before other operating items	97,476	88,038
Depreciation and amortization	(12,492)	(15,164)
Other operating income, net (notes 2, 10(d) and 12)	3,587	2,056
Earnings from operations	88,571	74,930
Interest income (expense), net (note 10(f))	409	(3,802)
Earnings before income taxes	88,980	71,128
Income tax expense (note 13):		
Current	(1,665)	(1,136)
Deferred	(836)	(290)
	(2,501)	(1,426)
Net earnings	$ 86,479	$ 69,702
Earnings per share	$ 2.52	$ 2.06

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

December 31, 1999 and 1998 *(In thousands of dollars)*	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 222,245	$ 17,591
Receivables (note 3)	60,931	58,610
Inventory	2,869	1,681
Prepaid expenses	1,754	1,952
	287,799	79,834
Long-term receivables (note 4)	129,174	150,866
Investments in hotel partnerships and corporations (notes 2 and 5)	116,010	76,761
Fixed assets (note 6)	39,748	31,464
Investment in management contracts (notes 2 and 7)	186,025	131,705
Investment in trademarks and trade names (note 8)	35,306	39,268
Deferred income taxes	6,864	7,152
Other assets (note 9)	31,213	28,006
	832,139	545,056
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 57,311	$ 49,666
Long-term debt due within one year (note 10)	1,005	1,062
	58,316	50,728
Long-term debt (note 10)	186,126	163,925
Shareholders' equity (note 11):		
Capital stock	308,993	300,805
Convertible notes (note 10(b))	178,424	—
Contributed surplus	4,784	4,784
Retained earnings	94,150	11,236
Equity adjustment from foreign currency translation	1,346	13,578
	587,697	330,403
Commitments and contingencies (note 14)		
	$ 832,139	$ 545,056

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Isadore Sharpe
Director

Benjamin Swirsky
Director

Consolidated Statements of Cash Provided by Operations

Years ended December 31, 1999 and 1998 *(In thousands of dollars)*	**1999**	1998
Cash provided by (used in) operations:		
Management Operations:		
Earnings before other operating items	**$ 89,126**	$ 79,883
Items not requiring an outlay of funds	**689**	4
Working capital provided by Management Operations	**89,815**	79,887
Ownership Operations:		
Earnings before other operating items	**8,350**	8,155
Items not requiring (providing) an outlay (inflow) of funds	**(302)**	328
Working capital provided by Ownership Operations	**8,048**	8,483
	97,863	88,370
Realized foreign exchange gain (loss)	**(2,419)**	354
Recovery of loss (note 2)	**6,006**	837
Interest received	**12,262**	6,341
Interest paid	**(9,490)**	(9,561)
Current income tax expense	**(1,665)**	(1,136)
Change in non-cash working capital	**4,230**	(9,407)
Cash provided by operations	**$ 106,787**	$ 75,798

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 1999 and 1998 *(In thousands of dollars)*	1999	1998
Cash provided by (used in):		
Operations	$ 106,787	$ 75,798
Financing:		
Long-term debt, including current portion:		
Issued	—	45,562
Repaid	(46,458)	(10,461)
Issuance of shares (note 11)	8,188	2,423
Issuance of convertible notes (note 10(b))	244,721	—
Dividends paid	(3,539)	(3,502)
Other	(423)	(678)
Cash provided by financing	202,489	33,344
Capital investments:		
Increase in long-term receivables	(80,976)	(68,476)
Decrease in long-term receivables	3,997	1,341
Hotel investments	(40,535)	(24,514)
Disposal of hotel investment (note 5(b))	34,025	—
Purchase of fixed assets	(13,016)	(13,885)
Investment in trademarks, trade names and management contracts	(1,182)	(4,445)
Other assets	(5,171)	(7,179)
Cash used in capital investments	(102,858)	(117,158)
Increase (decrease) in cash	206,418	(8,016)
Increase (decrease) in cash due to unrealized foreign exchange gain (loss)	(1,764)	272
Cash and cash equivalents, beginning of year	17,591	25,335
Cash and cash equivalents, end of year	$ 222,245	$ 17,591

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended December 31, 1999 and 1998 *(In thousands of dollars)*	1999	1998
Retained earnings (deficit), beginning of year	$ 11,236	$ (54,961)
Net earnings	86,479	69,702
Dividends declared	(3,565)	(3,505)
Retained earnings, end of year	$ 94,150	$ 11,236

See accompanying notes to consolidated financial statements.

Years ended December 31, 1999 and 1998
(In thousands of dollars except per share amounts)

Four Seasons Hotels Inc. ("FSHI") is incorporated under the Business Corporations Act of the Province of Ontario and, through its subsidiaries, is engaged in the management of, and the investment in, hotel, resort and interval, fractional and whole ownership residential properties throughout the world (note 16). (FSHI and its subsidiaries are collectively referred to as the "Corporation".)

At December 31, 1999, the Corporation managed 47 hotels and resorts, one residence club and had various projects under construction or development, of which the Corporation had an equity interest in 10 hotels and resorts under management, one residence club and five projects under construction. The Corporation earns management and other related fees under long-term management contracts based generally on a percentage of total revenues and operating profits of the managed properties.

1. Significant accounting policies:

The Corporation's accounting policies and its standards of financial disclosure comply with accounting principles that are generally accepted in Canada. The significant accounting policies are summarized below:

(a) Principles of consolidation:

The Corporation consolidates all of its wholly owned subsidiaries, including its primary operating subsidiaries—Four Seasons Hotels Limited and FSR International Hotels Limited ("Regent").

The Corporation consolidates its 100% leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York, and effective November 30, 1999, the Corporation also consolidates its 100% leasehold interest in the Four Seasons Hotel Berlin (note 14(a)).

(b) Accounting for investments in hotel partnerships and corporations:

The Corporation accounts for its investments in hotel partnerships and corporations by the cost method because either the percentage ownership and structure does not give the Corporation significant influence over these investments or the investments were acquired with the intention that they be disposed of in the foreseeable future.

The Corporation recognizes revenue on its investment in these partnerships and corporations when profit distributions are receivable from the partnerships or corporations.

In the event of a decline in value of an investment in the equity of a hotel partnership or corporation that is other than temporary, the investment is written down to the estimated recoverable amount.

(c) Translation of foreign currencies:

Foreign currency balances of the Corporation and of foreign operations designated as integrated are translated into domestic currencies at the rates of exchange on the balance sheet date for monetary items, and at the rates of exchange on the date of transaction for non-monetary items. The resulting translation gains or losses are included in the determination of net earnings, except for gains or losses related to foreign currency denominated long-term debt designated as hedges of investments in self-sustaining foreign operations, which are deferred and included in a separate component of shareholders' equity.

Translation gains or losses on foreign exchange forward contracts designated as hedges of long-term receivables are included in income in the same period as the related translation losses or gains on the hedged receivables. Any premiums or discounts on the forward contracts are amortized to interest expense over the terms of the contracts.

Revenues and expenses denominated in foreign currencies are translated at the rates of exchange on the dates of the transactions, except for revenues hedged by foreign exchange forward contracts, which are translated at the contract rates.

The financial statements of foreign investments designated as self-sustaining operations are translated into Canadian dollars as follows:

(i) Assets and liabilities at rates of exchange on the balance sheet date, and

(ii) Revenue and expense items at average rates of exchange in effect during the year.

The resulting exchange gains and losses are deferred and included in a separate component of shareholders' equity. A gain or loss equivalent to a proportionate amount of the exchange gains and losses accumulated in the separate component of shareholders' equity is recognized in income when there has been a reduction in the net investment resulting from a sale of part or all of the Corporation's interest in the foreign operation, or a reduction in the shareholders' equity of the foreign operation as a result of dividend distributions or other capital transactions.

(d) Capital assets:

Land, buildings, furniture, fixtures, equipment and leasehold interests and improvements are recorded at cost less accumulated depreciation and amortization.

The cost of hotel management contracts acquired as part of the acquisition of Regent in 1992 represents the present value at the time of acquisition of the estimated future net cash flows expected to be received over the estimated lives of the contracts.

Prior to January 1, 1998, the cost of trademarks and trade names included the estimated fair value of the "Regent" trademark and trade name at the date of the Regent acquisition. Subsequently, the cost of trademarks and trade names includes the portion of the net book value that relates to the rights to the "Regent" name transferred to Carlson Hospitality Worldwide (note 8(a)).

The cost of trademarks and trade names also includes the cost of registering the "Four Seasons" trademarks and trade names throughout the world.

(e) Depreciation and amortization of capital assets:

Depreciation of buildings is recorded on a straight-line basis over 40 years.

Depreciation of furniture, fixtures and equipment is recorded on a straight-line basis at rates which will fully depreciate the assets over their estimated useful lives. The estimated composite useful lives for furniture, fixtures and equipment range from three to 20 years.

Amortization of leasehold interests and improvements is recorded on a straight-line basis over the terms of the leases.

The costs allocated to trademarks and trade names are amortized on a straight-line basis over a 40-year period.

The costs allocated to the hotel management contracts acquired as part of the Regent acquisition are amortized on a straight-line basis over the remaining terms of the contracts, which ranged from eight to 40 years, with an average of 27 years, at the date of acquisition.

The recoverability of the unamortized cost of trademarks, trade names and hotel management contracts is periodically evaluated to determine whether such costs will be recovered from future operations. The Corporation bases these evaluations upon the projected future net fee stream on an undiscounted basis. If the undiscounted net fee streams are insufficient to recover the remaining net book value, then the undiscounted net fee stream is used as the revised carrying value, and a writedown for the difference is recorded. Events that cause impairment to individual hotel management contracts, such as termination or sale, result in write-offs as the events occur.

(f) Deferred charges:

The Corporation defers legal, consulting, travel and other costs directly relating to the negotiation, structuring and execution of new contracts relating to projects which, in management's judgment, have a high probability of opening. When the property is opened, these deferred charges are reclassified to "Investment in management contracts." If the project is

abandoned, any deferred charges are written off. The deferred charges associated with new management contracts developed by the Corporation are amortized on a straight-line basis over a 10-year period commencing when the hotel is opened.

(g) Cash and cash equivalents:

The Corporation's investments in cash and cash equivalents are highly liquid, with maturities of less than 30 days. These investments include bank deposits, guaranteed investment certificates and money market funds held with major financial institutions.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The most significant estimates that the Corporation is required to make relate to the recoverability of its investments in (i) long-term receivables, (ii) hotel partnerships and corporations, (iii) management contracts, and (iv) trademarks and trade names.

The estimated recoverable amounts of these investments usually depend upon estimates of the profitability of the related managed hotels, which, in turn, depend upon assumptions regarding future conditions in the general or local hospitality industry, competition from other hotels, changes in travel patterns, and other factors that affect the hotels' gross operating revenue (which is the factor on which the Corporation's base management fee revenues are normally based) and net operating profit (which is the factor on which the Corporation's incentive fee revenues are normally based).

The estimates of recoverable amounts of these investments may also depend upon assumptions regarding local real estate market conditions, property and income taxes, interest rates and the availability, cost and terms of financing, the impact of present or future legislation or regulation, and other factors affecting the profitability and saleability of the hotels.

These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of recoverable amounts are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated recoverable amounts could change by a material amount.

(i) Earnings per share:

Earnings per share is based on the weighted average number of Variable Multiple Voting Shares and Limited Voting Shares outstanding during the years (note 11(a)). Conversion of outstanding options and convertible notes to acquire Limited Voting Shares was not materially dilutive.

(j) Stock options:

The Corporation has an executive stock option plan (note 11(a)). No compensation expense is recognized when options are issued. Any consideration paid to the Corporation on exercise of options is credited to capital stock. If options are repurchased by the Corporation, the consideration paid is charged to retained earnings.

(k) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

2. Recovery of (provision for) loss:

During 1999, the Corporation recovered $6,006 (1998 – $837) on loans that had been written off in 1993 and 1995.

During 1998, as a result of the continuing economic downturn in parts of Asia and the risk of future significant currency devaluations, the Corporation reassessed the estimated recoverable amounts of its assets located in, or related to, Asia. These assets consisted primarily of the Corporation's investment in The Regent Hong Kong and its investments in management contracts for Regent hotels located in Asia.

The management contracts for two Regent hotels located in Asia and the lease relating to The Regent Hong Kong are due to expire in 2000. Although the Corporation is in discussions with each of the owners of these properties regarding potential extensions or other changes to the existing management agreements, there is no certainty regarding the outcome of those discussions. Accordingly, the Corporation wrote down the carrying value of these investments to their estimated net recoverable amounts, resulting in a provision for loss of $12,728 in 1998.

Based on a review of the estimated recoverable amounts of these assets in 1999, no further provision was considered necessary in 1999.

3. Receivables:

		1999		1998
Trade accounts of consolidated hotels	$	**10,216**	$	9,013
Receivable from hotel partnerships, affiliates and managed hotels		**39,493**		38,016
Other		**11,222**		11,581
	$	**60,931**	$	58,610

Receivables at December 31, 1999 are recorded net of an allowance for doubtful accounts of $3,523 (1998 – $2,532). The net bad debt expense for the year ended December 31, 1999 was $1,043 (1998 – net bad debt recovery of $752).

4. Long-term receivables:

		1999		1998
Secured cash flow bond, interest at 10%, £10.3 million (1998 – £11.2 million) (a)	$	**26,105**	$	28,946
Secured loans:				
Secured by shares:				
Interest at 10%, £12.2 million (1998 – £12.2 million) (b)		**31,025**		31,535
Interest at 7.5%, compounded quarterly, AUS$17,235 (c)		**16,344**		—
Interest at LIBOR plus 3%, US$8,475 (1998 – US$10,128) (note 5(b))		**12,232**		15,659
Interest at 6% (1998 – FFr161.6 million) (d)		**—**		44,728
Secured by a hotel property sold (e)		**6,530**		6,717
Due from directors, officers and employees, non-interest bearing notes and mortgages		**11,252**		7,706
Unsecured loans to managed hotels:				
Interest at 10.5%, compounded monthly, AUS$8,480 (c)		**8,041**		—
Non-interest bearing (1998 – AUS$12,822) (c)		**—**		12,157
Non-interest bearing, US$6,886 (1998 – US$5,991) (f)		**9,940**		9,262
Non-interest bearing, £3 million (g)		**6,994**		—
Interest at 6%, due 2009, £3 million		**4,344**		—
Interest at 7%, US$1,841		**2,657**		—
Interest at Canadian bankers' acceptance rate plus 3/4%		**927**		1,886
		136,391		158,596
Less allowance for doubtful long-term receivables (f)		**(7,217)**		(7,730)
	$	**129,174**	$	150,866

(a) The cash flow bond, which is due in 2005, was received by the Corporation in 1995 as consideration for the sale of its 50% interest in the Four Seasons Hotel London to an affiliate of Kingdom Investments Inc. ("Kingdom"), which is a significant shareholder of FSHI. Principal and interest on the bond are payable annually every March out of 50% of the available cash flow (as defined in the bond indenture) from the hotel. The bond is secured by the purchaser's original investment in the hotel. During 1999, principal repayment of £0.9 million (1998 – £0.4 million) was received by the Corporation, as well as all interest accrued on the bond to March 1999. Interest income from the bonds has been fully accrued in 1999, as the Corporation believes there is reasonable assurance the interest will be received in March 2000.

(b) The loan, which is due in 2038, was made by the Corporation to an affiliate of Kingdom to finance the acquisition by the affiliate of a further 37.5% interest in the Four Seasons Hotel London (note 5(c)). Principal and interest on the loan are payable annually every March out of the other 50% of the available cash flow from the hotel. The loan is secured by the affiliate's additional indirect interest in the hotel. During 1999, the Corporation received payment for all interest accrued in 1998. Interest income from the loan has been fully accrued in 1999, as the Corporation believes there is reasonable assurance the interest will be received in March 2000.

(c) In 1998, the Corporation advanced a non-interest bearing loan to the purchaser of The Regent Hotel Sydney in the amount of Australian $12,822. Upon agreement between the Corporation and the owner of the hotel in 1999 of: (i) the proposed renovation program for the hotel; (ii) the terms and conditions of a shareholders' agreement; and (iii) a revised hotel management agreement, Australian $5,520 of the loan was converted into a 15.2% equity interest in the hotel. The remaining Australian $7,302 was converted into two unsecured bonds of Australian $3,651 each, which bear interest at a rate of 10.5% per annum, compounded monthly, beginning July 28, 1998. One of the bonds matures in 2000 and the other matures in 2001. It is expected that the bonds will be refinanced at maturity. As at December 31, 1999, accrued interest on the bonds amounted to Australian $1,178.

During 1999, the Corporation advanced Australian $16,500 to the owners of the hotel to partially finance a major renovation project at the hotel. The loan, which is to be repaid annually from available cash (as defined in the loan agreement), bears interest at 7.5% per annum, compounded quarterly, and is secured by an indirect interest in the hotel. As at December 31, 1999, accrued interest on the loan amounted to Australian $735.

Interest income from the bonds and the loan have been fully accrued in 1999, as the Corporation believes there is reasonable assurance the interest will be received.

(d) In connection with the acquisition of the Four Seasons Hotel George V, Paris by an affiliate of Kingdom, the Corporation advanced, in 1997, a loan to an affiliate of Kingdom in the amount of approximately French francs 161.6 million to finance, in part, the renovation of the hotel. The loan is secured by Kingdom's indirect interest in the hotel.

Following an extensive renovation program, the hotel was reopened in December 1999 and the Corporation began managing the hotel pursuant to a long-term management agreement. The renovation loan was exchanged for a 40-year credit facility to another affiliate of Kingdom. At maturity, an affiliate of Kingdom can purchase the loan for a nominal amount. As a result, the Corporation reclassified the loan to "Investment in management contracts" and will amortize it over 40 years. The loan will be repaid in accordance with an agreed upon formula if the management agreement is terminated for any reason.

The Corporation continues to receive interest at a rate of 6% per annum on the French francs 161.6 million advance.

(e) The Corporation received a promissory note relating to the sale of the Inn on the Park Toronto in 1996. The note has a face value of $10,000, bears interest at 6% per annum and is repayable over the period to January 17, 2001. At maturity, the debtor has the option to extend the note for a further five years. The debtor also has the option to prepay any or all of the principal and interest outstanding, without penalty, at any time. The note has been recorded at a discounted amount, using a rate of interest that takes into account the risks associated with the note. The principal and interest due on the note for 1999 and 1998 was received by the Corporation.

(f) As at December 31, 1999 and 1998, the amounts included a loan by the Corporation of US$5,000 ($7,217) to the owner of The Regent Hotel Jakarta which opened in late 1995. This loan is unsecured, non-interest bearing, and convertible into a 5% equity interest in the hotel, subject to regulatory approval. If the loan is not converted into equity of the hotel, the loan is repayable in full on December 14, 2003.

The owner of the hotel has a bank loan which is secured by the hotel. The owner stopped servicing this loan and the loan has been classified by the Indonesian Banking Restructuring Agency ("IBRA") as non-performing. The IBRA has acquired the loan from the bank. The owner is preparing to present a restructuring plan to the IBRA but it is possible that the IBRA will enforce its security and sell the hotel. In that event, the Corporation, along with all other unsecured creditors of the owner, would be entitled to obtain repayment from the sale proceeds, proportionately, after outstanding claims of all secured creditors have been satisfied. The Corporation has fully reserved for its loan to the owner of the hotel as at December 31, 1999 and 1998.

(g) In 1999, the Corporation advanced a non-interest bearing loan to the owner of the Four Seasons Hotel Canary Wharf (London) in the amount of £3 million. Upon certain terms and conditions being satisfied, this loan is expected to be converted into an equity interest in the hotel of approximately 19%.

Changes in the allowance for doubtful long-term receivables consist of:

	1999	1998
Balance, beginning of year	**$ 7,730**	$ 7,165
Foreign exchange	**(513)**	565
Balance, end of year	**$ 7,217**	$ 7,730

The only impaired long-term receivable identified by the Corporation at December 31, 1999 and 1998 is discussed in item (f) above. No interest income was recognized on impaired long-term receivables in 1999 or 1998.

5. *Investments in hotel partnerships and corporations:*

	1999	1998
The Regent Hong Kong ((a) and note 2)	**$ 6,615**	$ 7,730
Four Seasons Resort and Resort Club Scottsdale (b)	**6,922**	4,027
Four Seasons Hotel London (c)	**10,401**	10,581
Four Seasons Hotel Prague (d)	**22,103**	8,782
The Regent Hotel Sydney (note 4(c))	**5,366**	—
Other hotel partnerships and corporations	**64,603**	45,641
	$ 116,010	$ 76,761

(a) Investment in The Regent Hong Kong:

The Corporation has a 25% leasehold interest in The Regent Hong Kong. The initial term of the leasehold terminates in December 2000. Subsequent to December 31, 1999, the lessee exercised its option to renew the lease for an additional 10 years. Negotiations are due to commence regarding the rent payable during the renewal term. The Corporation amortizes the cost of its investment in The Regent Hong Kong on a straight-line basis over the remaining term of the initial leasehold and renewal term. Amortization expense during the year was $618 (1998 – $2,766).

(b) Investment in the Four Seasons Resort and Resort Club Scottsdale:

As at December 31, 1998, the Corporation had a 15.4% interest in the partnership that had a 95.35% equity interest in the company that owns the Four Seasons Resort Scottsdale (the "Resort") and in the company that owns the Four Seasons Resort Club Scottsdale (the "Resort Club"). In addition, the Corporation had a direct 4.65% equity interest and a 65.79%

voting interest in these two companies. The Corporation had advanced US$10,128 to these two companies as at December 31, 1998.

During 1999, the Corporation made further advances to the Resort and purchased two parcels of land adjacent to the Resort. In December 1999, the Corporation sold its direct ownership interest in the Resort and a 50% interest in the land for proceeds approximating book value, which was composed of:

(i) cash proceeds of US$23,146,

(ii) a preferred profits interest of US$10,624 in the purchaser's interest in the Resort, and

(iii) advances receivable of US$1,430.

The preferred profits interest bears an annual return of 7.5% payable, in part, out of available cash (as defined) from the profits of the Resort. Principal and any deferred return on the preferred profits interest and advances receivable are payable on sale or refinancing of the Resort, or if the management agreement is terminated. As a result, the Corporation reclassified the preferred profits interest and advances receivable to "Investment in management contracts" and will amortize them over the term of the management agreement.

As at December 31, 1999, as a result of the sale of the direct ownership interest in the Resort, the Corporation continued to hold a 15.4% interest in the partnership that now has a 25.03% equity interest in the Resort.

The Corporation has also made advances to the Resort Club of US$8,475, and, subsequent to December 31, 1999, converted a portion of these advances to a 65.79% equity interest in the Resort Club. The Corporation is in discussions with the purchaser of its direct interest in the Resort relating to the sale of a portion of the Corporation's equity interest in the Resort Club.

(c) Investment in the Four Seasons Hotel London:

Effective January 1, 1998, the Corporation and an affiliate of Kingdom acquired the 50% ownership interest in the Four Seasons Hotel London that the affiliate did not already own. The Corporation acquired a 12.5% ownership interest in the hotel and the affiliate increased its ownership interest in the hotel from 50% (which it acquired from the Corporation in 1995 (note 4(a))) to 87.5%. To facilitate the acquisition, the Corporation invested £16.3 million, which includes a loan of £12.2 million (note 4(b)) and an investment in preferred shares of £4.1 million.

The preferred shares bear a cumulative annual dividend of 10%, and are redeemable at the option of the Corporation. Dividends on, and redemptions of, the preferred shares are funded from the newly acquired 50% portion of the available cash flow (as defined in the shareholders' agreement) from the hotel.

(d) Investment in the Four Seasons Hotel Prague:

The Corporation has a 66.67% equity interest in the company that owns and is constructing the Four Seasons Hotel Prague. The Corporation is in discussions with potential purchasers for a portion or all of the Corporation's investment in this hotel.

6. *Fixed assets:*

	1999			1998
	Cost	**Accumulated depreciation/ amortization**	**Net book value**	Net book value
Land	**$ 1,000**	**$ —**	**$ 1,000**	$ 1,000
Buildings	**9,252**	**(1,563)**	**7,689**	6,954
Furniture, fixtures and equipment	**31,687**	**(7,610)**	**24,077**	20,227
Leasehold interests and improvements	**8,477**	**(1,495)**	**6,982**	3,283
	$ 50,416	**$ (10,668)**	**$ 39,748**	$ 31,464

Depreciation and amortization expense for fixed assets was $4,156 (1998 – $2,303).

7. Investment in management contracts:

	1999	1998
Management contracts, at cost (notes 2, 4(d) and 5(b))	$ **214,854**	$ 156,887
Less accumulated amortization	**(28,829)**	(25,182)
	$ **186,025**	$ 131,705

Amortization expense for management contracts was $5,627 (1998 – $8,965).

8. Investment in trademarks and trade names:

	1999	1998
Trademarks and trade names, at cost	$ **40,560**	$ 43,007
Less accumulated amortization	**(5,254)**	(3,739)
	$ **35,306**	$ 39,268

(a) Disposition of "Regent" trade name:

In November 1997, the Corporation entered into an agreement with Carlson Hospitality Worldwide ("Carlson") pursuant to which Carlson acquired the rights to the "Regent" name for new development. The Corporation will continue to operate and manage the existing Regent hotels. The Corporation will be entitled to receive payments from Carlson calculated as a percentage of the gross royalty revenue of the new development effort. The net book value of US$22,240 that relates to the rights to the "Regent" name transferred to Carlson is being amortized over 40 years.

(b) Amortization expense:

Amortization expense for trademarks and trade names was $1,912 (1998 – $1,023).

9. Other assets:

	1999	1998
Bonds and debentures	$ **4,332**	$ 4,640
Cash surrender value of life insurance policies (a)	**15,494**	14,859
Deferred development costs	**6,864**	6,032
Deferred financing costs	**3,682**	1,301
Other deferred costs	**841**	1,174
	$ **31,213**	$ 28,006

(a) These policies insure the lives of senior executives and are designated to finance pension benefit obligations for these individuals (note 14(b)). These policies are held directly and indirectly by the Corporation.

10. Long-term debt:

	1999	1998
Unsecured debentures (a)	**$ 100,000**	$ 100,000
Convertible notes (b)	**69,137**	—
Bank credit facility (c)	**—**	47,926
Other long-term liabilities	**17,994**	17,061
	187,131	164,987
Less amounts due within one year	**(1,005)**	(1,062)
	$ 186,126	$ 163,925

(a) Unsecured debentures:

The unsecured debentures, with a face value of $100,000, were issued on July 2, 1997 at a discount for $99,723, and are due on July 2, 2002. The debentures bear interest at 6%, payable semi-annually, and are redeemable at the option of the Corporation, in whole or in part, at any time, at redemption prices provided for in the indenture.

(b) Convertible notes:

During 1999, FSHI issued US$655,519 principal amount at maturity (September 23, 2029) of convertible notes for gross proceeds of US$172,500. The net proceeds of the issuance, after deducting offering expenses and underwriter's commission, were approximately US$166,000. At any time on or before the maturity date, unless the notes have previously been redeemed or purchased, holders may require FSHI to convert the notes (each one thousand US dollar principal) into 5.284 Limited Voting Shares of FSHI. FSHI has the right to acquire for cash the notes that a holder has required to be converted. The conversion rate may be adjusted for certain reasons, but will not be adjusted for accrued interest.

Holders also have the right to require FSHI to purchase all or a portion of their notes on September 23, 2004, September 23, 2009 and September 23, 2014 in consideration for Limited Voting Shares of FSHI. FSHI has the right to acquire for cash all or a portion of the notes that a holder has required to be so purchased. In addition, upon a change in control of FSHI occurring on or before September 23, 2004, FSHI will be required to offer to purchase all the notes for cash at the issue price plus accrued interest to the date of purchase. FSHI may redeem all or a portion of the notes at any time on or after September 23, 2004 for cash at the issue price plus accrued interest to the date of purchase.

In accordance with Canadian generally accepted accounting principles, the notes are bifurcated into a debt component (representing the present value of a zero coupon bond of US$655,519 maturing 2029, yielding 9% per annum, compounding semi-annually) and an equity component (representing the value of the conversion feature of the notes). Accordingly, net proceeds have been allocated $68,902 to long-term debt and $178,424 to shareholders' equity. The offering expenses and underwriter's commission relating to the debt component of the notes of approximately $2,605, are recorded in other assets. The principal amount of the notes will increase as interest is compounded at 9% over the 30-year term of the note.

(c) Bank credit facility:

The Corporation has a US$200,000 committed bank credit facility, of which US$100,000 matures in April 2002 and US$100,000 matures in July 2002. As at December 31, 1999, no amounts (1998 – US$31,000) were borrowed by the Corporation under this credit facility. Borrowings under this credit facility bear interest at LIBOR plus a spread ranging between 0.3% and 1% depending upon certain criteria specified in the loan agreement.

(d) Unsecured notes:

The Corporation repurchased the remaining outstanding unsecured notes with a face value of US$6,000 during 1998 for US$6,225 which resulted in an accounting loss of $376. The notes bore interest at 9-1/8% and were payable semi-annually. The notes repurchased were cancelled by the Corporation.

(e) Scheduled long-term debt repayments:

2000	$	1,005
2001		1,068
2002		100,107
2005 and subsequent years		84,951
	$	187,131

(f) Interest income (expense), net:

		1999		1998
Interest on long-term debt	**$**	**(11,074)**	$	(9,027)
Other interest expense		**(2,924)**		(2,192)
Interest income		**14,407**		7,417
Interest income (expense), net	**$**	**409**	$	(3,802)

(g) Restrictive debt covenants:

The bank credit facility contains certain covenants which require the Corporation to maintain certain financial ratios. In addition, the bank credit facility and the trust indenture relating to the unsecured debentures contain additional covenants which, in certain circumstances, restrict the Corporation's ability to borrow funds ranking superior to these obligations and undertake certain types of major transactions. The Corporation was in compliance with these covenants during 1999 and 1998. In addition, the bank credit facility is callable in certain circumstances by the creditors on a change of control of FSHI.

11. Shareholders' equity:

(a) Capital stock:

Authorized:

3,986,872 Variable Multiple Voting Shares ("VMVS"), entitling the holder to that number of votes that results in the aggregate votes attaching to the VMVS representing approximately 66% of the votes attaching to the VMVS and the Limited Voting Shares ("LVS"), in aggregate, which, at December 31, 1999 was 14.91 votes (1998 – 14.54 votes) per VMVS. Changes in the number of votes attaching to the VMVS necessary to maintain this level will occur concurrently with the issue of additional LVS.

The continued adjustment of the voting rights of the VMVS as a result of the issuance of LVS will be subject to ratification by the holders of the LVS every three years, commencing at the time of FSHI's annual meeting in 2000. If the maintenance of the adjustment mechanism is not confirmed by a simple majority of the votes cast by the holders of LVS (other than "prescribed holders" of LVS), any issue of LVS after that time (other than the issue of LVS pursuant to a right, option or similar obligation granted prior to that time, including rights of holders of convertible notes) will not result in a further change in the number of votes attaching to the VMVS. Additionally, the continued application of the mechanism will be subject to ratification after any transfer of VMVS that results in a person other than a member of the family of Isadore Sharp holding VMVS or after Isadore Sharp ceases to be the Chief Executive Officer of FSHI.

The VMVS rank equally with the LVS as to distributions on liquidation, dissolution or winding-up of FSHI. Dividends declared and paid on the VMVS are in amounts per share equal to 50% of the dividends per share declared and paid on the LVS, regardless of whether the number of votes attaching to the VMVS is further increased.

VMVS are convertible into LVS on a one-for-one basis at the option of the holder. The shares automatically convert into LVS upon any transfer outside of the family of Isadore Sharp, except a transfer of a majority of the shares to a purchaser who makes an equivalent offer to purchase all outstanding VMVS and LVS.

Unlimited LVS, voting (one vote per share) and ranking equally with the VMVS as to distributions on liquidation, dissolution or winding-up of FSHI.

Unlimited First Preference Shares, issuable in series, non-voting and ranking prior to all other shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.

Unlimited Second Preference Shares, issuable in series, non-voting and ranking prior to all other shares except the First Preference Shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.

Issued and fully paid:

	VMVS		LVS		
	Shares	Stated value	Shares	Stated value	Total
December 31, 1997	4,171,924	$ 46	29,547,456	$ 298,336	$ 298,382
Options exercised for cash	—	–	190,902	2,423	2,423
December 31, 1998	4,171,924	46	29,738,358	300,759	300,805
Conversion of VMVS	(185,052)	(2)	185,052	2	—
Options exercised for cash	—	—	583,650	8,188	8,188
December 31, 1999	**3,986,872**	**$ 44**	**30,507,060**	**$ 308,949**	**$ 308,993**

At the Special Meeting of Shareholders on December 19, 1989, the shareholders approved a Long-Term Incentive Plan, whereby the chief executive officer of FSHI was granted the right to receive a special payment on an arm's-length sale of control of FSHI (the "sale"). The amount of the payment is determined with reference to the sale price and the trading price of LVS on The Toronto Stock Exchange in the period preceding the sale. The right to receive the payment may be transferred among members of the officer's family, their holding companies and trusts.

Under executive share option plans, eligible directors, executives and employees may be granted options to acquire LVS at a price which is not less than the weighted average price of board lots traded on The Toronto Stock Exchange in the five trading days preceding the date of grant. The options are not transferable, have a term of 10 years, and generally become exercisable in varying proportions on the first, second, third, fourth and fifth anniversaries of the date of grant. All such options become exercisable within specified periods in the event of retirement, termination other than for cause (including as a result of a change of control of FSHI), incapacity or death of the director, executive or employee.

Changes in stock options for the years ended December 31, 1999 and 1998 were as follows:

	Options outstanding	Weighted-average exercise price	Available for grant
Balance at December 31, 1997	3,113,464	$ 23.61	2,411
Additional options approved by shareholders	—	—	1,150,000
Granted	511,000	39.75	(511,000)
Exercised	(190,902)	11.91	—
Cancelled	(17,000)	46.34	17,000
Balance at December 31, 1998	3,416,562	26.56	658,411
Additional options approved by shareholders	—	—	1,200,000
Granted	1,826,329	52.26	(1,826,329)
Exercised	(583,650)	14.03	—
Cancelled	(18,600)	36.51	18,600
Balance at December 31, 1999	**4,640,641**	**$ 38.27**	**50,682**
Exercisable at December 31, 1999	**1,428,477**	**$ 21.48**	

Information relating to stock options outstanding at December 31, 1999 were as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Options exercisable	Weighted-average exercise price
$11.30 to $18.65	930,774	3.8 years	$ 12.99	882,539	$ 12.85
21.52 to 28.10	377,638	6.7	25.61	201,608	25.22
30.00 to 39.61	741,700	7.6	32.75	150,700	33.97
40.51 to 49.33	1,420,914	8.4	47.30	191,200	47.09
53.28 to 59.51	1,169,615	8.9	55.00	2,400	58.73
$11.30 to $59.51	4,640,641	7.3 years	$ 38.27	1,428,447	$ 21.48

(b) Equity adjustment from foreign currency translation:

The decrease in the equity adjustment from foreign currency translation is primarily caused by changes in the exchange rates used to translate the Corporation's net investment in self-sustaining foreign operations.

12. Foreign exchange gain:

(a) During 1999, the Corporation recorded a realized foreign exchange loss of $2,419 (1998 – foreign exchange gain of $354), primarily from the revaluation of US dollar net monetary assets.

(b) In addition, during 1998, the Corporation reduced its net investment in its self-sustaining foreign subsidiary, Regent. The reduction was related to a capital restructuring whereby Regent repaid capital of approximately US$50,000 to the Corporation. A foreign exchange gain of $7,778, which is equivalent to the proportional amount (relating to the reduction in the net investment of Regent) of the foreign exchange gain accumulated in "Equity adjustment from foreign currency translation" in shareholders' equity, was recognized in income.

(c) The remainder of the foreign currency gain of $6,191 in 1998 relates primarily to unrealized foreign currency translation gains on unhedged long-term receivables denominated in foreign currencies, primarily pounds sterling and French francs, and translation gains and losses on intercompany amounts with self-sustaining foreign operations.

13. Income taxes:

Income tax expense shown in the consolidated statements of operations varies from the amount computed by applying the combined Canadian federal and provincial tax rates as follows:

		1999		1998
Earnings before income taxes	$	**88,980**	$	71,128
Items not deductible (not subject to tax)		**(3,576)**		14,737
Earnings subject to tax	$	**85,404**	$	85,865
Expected Canadian federal and provincial statutory tax rate		**41.5%**		41.5%
Expected income tax expense	$	**(35,443)**	$	(35,634)
Reduction in income tax due to lower foreign tax rates		**4,851**		3,669
Tax benefits of prior years' losses		**28,351**		30,486
Other		**(260)**		53
Income tax expense	$	**(2,501)**	$	(1,426)

The tax benefits relating to the provision for losses on hotel investments and related assets of $95,000 recorded in 1995 and $127,000 recorded in 1993 were not recognized at that time. The tax treatment of these losses will not be determined until the underlying assets are disposed of. The tax benefits of these provisions are recorded in the year(s) in which the benefits are realized. As at December 31, 1999, the Corporation had recognized substantially all of the tax benefits associated with the portion of the losses that management estimates can be applied against otherwise taxable income.

14. Commitments and contingencies:

(a) Lease commitments:

The Corporation has entered into lease agreements for certain hotel properties and corporate offices for periods up to the year 2025. The lease terms may be extended by the Corporation under renewal options for periods up to the year 2100.

Future minimum lease payments, exclusive of any contingent rentals, occupancy costs, and lease commitments relating to the Four Seasons Hotel Berlin, are as follows:

2000	$	9,673
2001		9,924
2002		7,728
2003		7,416
2004		7,499
Subsequent to 2004		108,299
	$	150,539

The total lease commitments above include approximately $42,000 representing the lease commitments relating to the Four Seasons Hotel Prague, which is currently under construction. The lease payments are to be paid out of the hotel's operations. To the extent the hotel is unable to pay these commitments, the Corporation's liability to fund any shortfall is limited to a guarantee of 66.67% of two years of lease payments and an agreement to return the building to its original condition upon expiration of the lease. The Corporation currently has a 66.67% equity interest in this project and is in discussions to dispose of a portion or all of its investment (note 5(d)).

The Corporation has provided a US$5,000 letter of credit to support its obligations under the lease at The Pierre New York.

An amendment to the lease agreement for the Four Season Hotel Berlin was completed on November 30, 1999, at which time the Corporation began accounting for the hotel's operations on a consolidated basis. The amendment resulted

in the hotel lease being transferred to the Corporation effective January 1, 1999. The lease is for an initial 20-year term with 10 five-year renewals at the Corporation's option. Future minimum lease payments of the hotel, exclusive of any contingency rentals and occupancy costs, are as follows:

2000	$	4,828
2001		6,016
2002		6,536
2003		6,833
2004		7,984
Subsequent to 2004		116,846
	$	149,043

The future minimum lease payments of approximately DM200 million ($149,043) are to be paid out of the hotel's operations. To the extent that the hotel is unable to pay these commitments, the Corporation's liability to fund any shortfall is limited to DM21 million over the life of the initial lease term of 20 years. However, the landlord may terminate the lease if minimum rent is not paid.

[illegible] Pension commitments:

The Corporation maintains a multi-employer non-contributory defined benefit pension plan (the "Plan") on behalf of the Corporation and the owners of certain managed hotels. The Plan provides pension benefits for certain senior executives of the Corporation and hotel general managers, based on years and level of service and annual salary.

Extrapolation of the actuarial valuation of the Plan dated January 1, 1999, based on projections of employees' compensation levels to the date of retirement, indicates an actuarial value of accumulated Plan benefits as at December 31, 1999 of $33,535 for 80 participants, of which the Corporation's share was approximately $20,002 for 37 participants. These benefits are financed by life insurance policies on the lives of each of the participants in the Plan. The Corporation's share of the cash surrender value of the policies as at December 31, 1999 was $15,494 (note 9).

In addition, the Corporation maintains an unfunded, non-contributory deferred compensation plan for the purpose of providing retirement benefits for certain other hotel general managers.

[illegible] Contingencies:

(i) The Corporation estimates and accrues for the losses, if any, it is likely to incur relating to uninsured contingent liabilities such as guarantees of third party debt, environmental matters, personal injury and property damage at owned or managed hotels, workers' compensation claims, etc. The Corporation's assessment of its potential liability for such matters could change, with the result that the accruals for contingent liabilities recorded in the Corporation's financial statements could increase by a material amount.

(ii) The Corporation is contingently liable for some or all of the obligations of certain of the managed hotels and/or partnerships and joint ventures in which it has a direct interest (note 5). However, against this contingent liability, the Corporation would have a claim upon the assets of the partnerships and joint ventures and, in certain limited cases, their partners.

(iii) The Corporation has provided guarantees in connection with the Four Seasons Resort Club Aviara. One such guarantee was entered into to allow lenders to the project access to any distributions received by the Corporation in respect of its ownership interest in the case of a default in respect of debt related to the development.

(iv) Until 1982, the Corporation held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately $22,000 (of which approximately $20,600 plus accrued interest was outstanding as at December 31, 1999) in connection with the property and the Corporation provided a several guarantee with

respect to the financing. The Corporation sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of the Corporation's obligations under the mortgage. The Corporation has been advised by the mortgagee that a default has occurred under the mortgage and the mortgagee has commenced a proceeding against the Corporation and another guarantor. The Corporation is vigorously defending the suit and believes that, as a result of, among other things, the sale by the Corporation of its interest in the property and the resulting obligations of the purchaser, obligations of the Corporation, if any, to the mortgagee should be offset by corresponding claims against the purchaser.

(v) The Corporation has guaranteed up to US$4,500 plus accrued interest, of the construction loan relating to the Four Seasons Resort Scottsdale.

(vi) In the ordinary course of its business, the Corporation is named as defendant in legal proceedings resulting from incidents taking place at hotels owned or managed by it. The Corporation maintains comprehensive liability insurance and also requires hotel owners to maintain adequate insurance coverage. The Corporation believes such coverage to be of a nature and amount sufficient to ensure that it is adequately protected from suffering any material financial loss as a result of such claims.

(vii) A number of the Corporation's management contracts are subject to certain performance tests which, if not met, could allow a contract to be terminated prior to its maturity. The Corporation generally has various rights to cure any such defaults to avoid termination. In addition, certain management contracts are terminable by the hotel owner on a defined change of control of FSHI.

(viii) The Corporation has guaranteed certain obligations of various directors, officers, and employees in the amount of $977.

15. Fair value of financial instruments:

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. These estimates, although based on the relevant market information about the financial instrument, are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

As cash equivalents, current accounts receivable, current accounts payable and certain other short-term financial instruments are all short-term in nature, their carrying amounts approximate fair value.

The fair values of the Corporation's long-term debt and convertible notes are estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Other financial instruments held by the Corporation include interest bearing loans receivable due from owners of managed hotels (note 4). The Corporation does not have plans to sell these loans to third parties and will realize or settle them in the ordinary course of business. The fair value of these instruments cannot be reasonably estimated because no active and liquid market exists for these instruments, and a market rate of interest (for instruments having similar terms and characteristics) required to use estimation techniques such as discounted cash flow analysis cannot reasonably be determined due to the unusual terms of these instruments.

The Corporation enters into foreign exchange forward contracts that oblige it to buy or sell specific amounts of foreign currencies at set future dates at predetermined exchange rates. Because a significant portion of the Corporation's revenues are derived in foreign currencies (primarily US dollars) and expenditures incurred by the Corporation for its hotel management operations are denominated primarily in Canadian dollars, the Corporation enters into such contracts to protect itself in the event of a strengthening Canadian currency. Management estimates future foreign currency cash flows on an ongoing basis, based on its projections of foreign currency denominated management fees and other transactions. Management negotiates foreign exchange forward contracts in proportion to the magnitude and timing of these cash flows. As at December 31, 1999, the Corporation had sold forward US$124,700 at a weighted-average forward exchange rate of 1.51 (1998 – US$139,805 at a weighted-average forward exchange rate of 1.50), under 25 forward contracts (1998 – 26 forward contracts) maturing over a 25-month period.

Because the Corporation has significant long-term receivables in pounds sterling, the Corporation, in 1998, entered into foreign exchange forward contracts to protect itself in the event of a strengthening Canadian currency. As at December 31, 1999, the Corporation had sold forward £34,961 at a weighted-average forward exchange rate of 2.52 (1998 – £37,651 at a weighted-average forward exchange rate of 2.52), under five forward contracts (1998 – seven forward contracts) maturing between February 2000 and March 2001.

The fair value of foreign exchange forward contracts is estimated from quotes obtained from the Corporation's counterparties for the same or similar financial instruments.

The fair value of financial instruments is as follows:

	Estimated fair value	Carrying amount
1999:		
Long-term debt (excluding convertible notes)	**$ 115,000**	**$ 117,994**
Convertible notes (a)	**293,000**	**254,573**
Foreign exchange forward contracts	**14,900**	**6,846**
1998:		
Long-term debt	164,000	164,987
Foreign exchange forward contracts	(4,600)	(4,429)

(a) The carrying amount of the convertible notes include both the amounts allocated to long-term debt and shareholders' equity. It excludes, however, the estimated offering expenses and underwriter's commission related to the shareholders' equity component of the notes of $7,012, which are recorded in shareholders' equity.

16. Segmented information:

The Corporation has two distinct operating segments: management operations and ownership operations. Under its management operations segment, the Corporation generally supervises all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, the Corporation typically receives a base fee calculated as a percentage of gross revenues of the hotel. In addition, the Corporation may receive incentive fees based on the operating performance of the hotels. Generally, the hotels' owners, and not the Corporation, fund substantially all capital expenditures and working capital of the hotels, including all employment and operating costs. This segment also includes the licensing and managing of residence clubs. The Corporation is entitled to receive a fee for the use of its brand name in connection with these projects, and for services provided in the oversight of the sales and marketing of the residence club units. In addition, the Corporation receives a fee from the owners of the residence club units for services provided in the ongoing management of these units.

Under its ownership operations segment, the Corporation had an equity interest in 10 hotels under management, one vacation ownership property and five projects under construction as at December 31, 1999. Earnings are primarily derived from the consolidation of its wholly owned interests in three hotels and distributions from its other equity interests. Generally, the ownership operations segment is labour-intensive and is subject to greater economic fluctuations than the management operations segment. Ownership returns can be materially affected by changes in travel patterns, local wage rate factors, the level of capital spending that is required to appropriately maintain and renew the hotels, volatility of construction costs, the availability of hotel financing and changes in interest rates. The Corporation structures its ownership interests separately from its management interests so as to enable the Corporation to dispose of ownership interests as sale opportunities arise, without affecting its management interests.

(a) Consolidated revenues:

Revenues have been allocated to specific geographic segments based on the location of each hotel.

			1999			1998
	Management revenues	**Ownership revenues**	**Consolidated revenues**	Management revenues	Ownership revenues	Consolidated revenues
United States	**$ 102,307**	**$ 100,381**	**$ 202,688**	$ 82,740	$ 92,401	$ 175,141
Canada	**5,724**	**34,071**	**39,795**	6,723	33,519	40,242
United Kingdom and Europe	**16,627**	**1,679**	**18,306**	17,041	—	17,041
Asia/Pacific	**19,326**	**4,550**	**23,876**	20,443	2,030	22,473
	143,984	**140,681**	**284,665**	126,947	127,950	254,897
Less intersegment revenues	**(7,117)**	—	**(7,117)**	(6,956)	—	(6,956)
	$ 136,867	**$ 140,681**	**$ 277,548**	$ 119,991	$ 127,950	$ 247,941

(b) Total assets:

	1999	1998
United States	**$ 349,137**	$ 238,924
Canada	**109,854**	82,512
United Kingdom and Europe	**224,679**	145,360
Asia/Pacific	**148,469**	78,260
	$ 832,139	$ 545,056

General

On December 20, 1994, The Toronto Stock Exchange Committee on Corporate Governance in Canada issued a series of guidelines for effective corporate governance (the "Guidelines"). As a result, the by-laws of The Toronto Stock Exchange have been amended to require disclosure on an annual basis of the approach to corporate governance by companies listed on the exchange. The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members.

The Board of Directors

The Board of Directors of FSHI (the "Board") acknowledges its statutory mandate to supervise the management of the business and affairs of FSHI. The Board, in fulfilling this mandate and discharging its duty of stewardship of FSHI, assumes responsibility for the following:

(a) reviewing and approving the strategic planning and business objectives that are submitted by management and working with management in the implementation of the strategic plan;

(b) identifying the principal business risks for the Corporation and overseeing the implementation and monitoring of appropriate risk management systems, with the Audit Committee assisting the Board in the monitoring of the risks and reporting on these matters regularly to the Board;

(c) ensuring internal control and management information systems for the Corporation are in place and are evaluated as part of the internal auditing process and that they are also reviewed periodically by the Audit Committee, with the Audit Committee assessing the effectiveness of the internal control and management information systems through meetings held with the external auditors, as appropriate, and senior management and a review of reports prepared by senior management;

(d) assessing the performance of the Corporation's executive officers, including monitoring the establishment of appropriate systems for succession planning and for approving the compensation levels of such executive officers based on the recommendations of the Compensation and Organization Committee; and

(e) ensuring that the Corporation has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The Board is scheduled to meet five times a year and meets more frequently if required. During the 1999 fiscal year, the Board held eight meetings.

The Guidelines suggest that every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. The Guidelines suggest that the chairman of the board of directors should not be a member of management or, alternatively, that the board adopt equivalent procedures such as assigning the responsibility of ensuring that the board discharges its responsibility to a lead director or committee of the board. In this respect, the Corporation has adopted a variety of structures to allow for the independence of the Board from

management, including the appointment of a lead director, the practice of having non-management members of the Board meeting periodically as a group, the Board initiating discussions with senior management without the Chief Executive Officer present so that they may voice their concerns, and the ongoing monitoring of the relationship between the Board and management by the Corporate Governance Committee.

Another of the Guidelines recommends that the board of directors and the chief executive officer should develop position descriptions for the board and for the chief executive officer that define the limits of management's responsibilities. In this regard, the Corporation has taken a different approach. The Board has adopted a job description and statement of functions for the Chief Executive Officer which delegates to him the day-to-day responsibility for directing the Corporation and for meeting the corporate objectives approved by the Board. The Chief Executive Officer reports formally to the Board, as well as informally through discussions with one or more members of the Board to advise the Board on courses of action that have been taken. The Board exercises its responsibility for oversight through the approval of all significant decisions and initiatives. The Board is satisfied that the Chief Executive Officer has reported to and sought the consent of the Board where necessary and appropriate.

Board Composition

The Guidelines require careful consideration of the size, composition and relative independence of corporate boards. According to the Guidelines, an "unrelated" director is a director who is independent of management and is free from any interest and any business or other relationship that could, or could reasonably be perceived to, interfere materially with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. The Guidelines emphasize the ability to exercise objective judgment, independent of management, as a hallmark of an unrelated director.

Due to the death of Mr. Christopher Wallis, the retirement of Mr. John Sharpe and the appointment of Mr. Anthony Sharp to the Board during 1999, the size of the Board was reduced from 14 to 13 members. The Board believes that its size promotes effectiveness and efficiency and falls within the range suggested by the Guidelines. The Board, in conjunction with the Corporate Governance Committee, has determined, after reviewing the roles and relationships particular to each of the directors, that seven of the 14 directors of FSHI who served in the 1999 financial year were related. The directors who are considered to be unrelated are Nan-b de Gaspé Beaubien, Charles S. Henry, Murray B. Koffler, J. Robert S. Prichard, Benjamin Swirsky, Shuichiro Tamaki and Simon Turner.

While the Guidelines recommend that a corporation should be constituted with a majority of individuals who qualify as unrelated directors, the Board believes that it has and continues to function independently of management.

Mr. Isadore Sharp is a "significant shareholder" (as defined in the Guidelines) of FSHI since he controls shares carrying the ability to exercise a majority of the votes for the election of the Board. The Guidelines suggest that where there is a significant shareholder, the Board should include a number of directors who do not have interests in or

relationships with either the Corporation or the significant shareholder and who fairly reflect the investment in FSHI by shareholders other than the significant shareholder. Seven of the directors who served in the 1999 financial year are unrelated to the significant shareholder and are unrelated to the Corporation. The Board believes that, at present, this balance serves the Corporation's needs.

In 1997, the articles of FSHI were amended to permit holders of Limited Voting Shares, as a class, to elect two members of the Board. Accordingly, at each annual meeting of shareholders two members of the Board are elected by holders of Limited Voting Shares. At the Annual Meeting of the Shareholders on May 12, 1999, Nan-b de Gaspé Beaubien and J. Robert S. Prichard were elected by the holders of the Limited Voting Shares.

The Board has three committees. These Committees are generally composed of outside directors, a majority of whom are unrelated directors. In this regard, the Corporation complies with the Guidelines. The only member of management represented on a committee is the Chief Executive Officer, who sits on the Compensation and Organization Committee. The Chief Executive Officer is not present when matters relating to his own compensation are being discussed.

Committees of the Board of Directors

The Committees are appointed annually following the election of the Board of Directors at the Annual Meeting of Shareholders. In 1999, the Committees of the Board were as follows:

Audit Committee Members: Murray B. Koffler, Lionel H. Schipper, Simon Turner, Benjamin Swirsky (Chairman).

The Audit Committee is composed entirely of non-management directors. It has primary oversight responsibility for the Corporation's financial reporting, risk management and internal controls. The Committee has unrestricted access to the Corporation's personnel and documents and to the Corporation's external auditors. The Audit Committee reviews the annual financial statements and recommends their approval to the Board. The Audit Committee reviews the scope and planning of the external audit, the form of audit report and any correspondence from or comment by the external auditors regarding financial reporting and internal controls. Accordingly, the Corporation complies with the applicable Guidelines.

Compensation and Organization Committee Members: Charles S. Henry, Edmond Creed, Nan-b de Gaspé Beaubien, Lionel H. Schipper (Chairman), Benjamin Swirsky, Isadore Sharp.

The Compensation and Organization Committee ensures that a process is in place to maintain the compensation program for the senior executive officers of the Corporation at a fair and competitive level. The Committee ensures that programs related to manpower planning, management development, succession planning, career path planning and performance evaluation are effectively integrated with the Corporation's strategy. The Committee reviews the compensation and remuneration of the Board to ensure that it realistically reflects the responsibilities and risk involved in being an effective director. Accordingly, the Corporation complies with the applicable Guidelines.

Corporate Governance Committee Members: Charles S. Henry, Murray B. Koffler (Chairman), J. Robert S. Prichard, Lionel H. Schipper, Nan-b de Gaspé Beaubien.

The Corporate Governance Committee is composed entirely of non-management directors, a majority of whom are unrelated directors. Its mandate is to enhance the Corporation's corporate governance through continuing assessment and policy recommendations on the Corporation's approach to corporate governance. The Committee develops for the approval of the Board the report on the Corporation's corporate governance practices. When necessary, the Committee determines suitable candidates for nominees as directors, periodically reviews the mandates of and assesses the effectiveness of committees of the Board, and assesses the effectiveness of the directors, oversees an orientation and education program for new recruits to the Board in order to familiarize them with the business of the Corporation, reviews the relationship between management and the Board, and assesses the Board's effectiveness as a whole. The Committee has also been granted the authority and direction to take such other initiatives as are needed to help the Board address corporate governance issues and to approve the engagement of independent advisors for individual directors at the expense of the Corporation, if the need should arise. Accordingly, the Corporation complies with the applicable Guidelines.

Communicating to Shareholders

The Board of Directors of FSHI is committed to an effective communications policy for the benefit of all stakeholders including shareholders, debt holders, suppliers, guests, governmental authorities, employees and members of the investment community. In addition to its timely and continuous disclosure obligations under applicable law, the Corporation maintains an Investor Relations Department and ensures that senior management are available to shareholders to respond to questions and concerns. Shareholder concerns are dealt with on an individual basis, usually by providing requested information. Material concerns and questions raised by shareholders to senior management are reported by senior management to the Board.

The Board has also adopted a practice for dealing with analysts, shareholders and the financial press so as to ensure an ongoing dialogue between the investment community and the Corporation to facilitate the dissemination of information. This approach specifically includes quarterly meetings with analysts and shareholders conducted by senior management to discuss financial results and outlook for the Corporation.

Corporate Directory

Directors

Edmond M. Creed*
Retired Executive

Frederick Eisen
President and CEO
The Eisen Corporation

H. Roger Garland

Nan-b de Gaspé Beaubien***
Vice Chairperson (and Director)
Gasbeau Company

Charles S. Henry***
President
Hotel Capital Advisers, Inc.

Murray B. Koffler+**
Partner
The Koffler Group

J. Robert S. Prichard**
President
University of Toronto

Lionel H. Schipper*+**
President
Schipper Enterprises Inc.

Anthony Sharp
Entrepreneur

Isadore Sharp*

Benjamin Swirsky*+**
President and
Chief Executive Officer
ZCONNEXX Corporation

Shuichiro Tamaki
Advisor
Jowa Corporation

Simon M. Turner+
Principal
Hotel Capital Advisers, Inc.

* Member of Compensation and Organization Committee

\+ Member of Audit Committee

** Member of Corporate Governance Committee

Honorary Past Directors

Mustafa I. Al-Hejailan
Managing Director International
Kingdom Establishment

Max Sharp
Retired Executive

Officers

Isadore Sharp
Chairman and
Chief Executive Officer

H. Roger Garland
Vice Chairman

Wolf H. Hengst
President, Chief Operations
Officer

Douglas L. Ludwig
Executive Vice President,
Chief Financial Officer
and Treasurer

Craig O. Reith
Vice President Finance
and Assistant Treasurer

Kathleen Taylor
President,
Chief Corporate Officer

Management Committee

Antoine Corinthios
President
Four Seasons Europe,
Middle East and Africa

James FitzGibbon
President, Four Seasons Asia Pacific

H. Roger Garland
Vice Chairman

Wolf H. Hengst
President
Chief Operations Officer

Douglas L. Ludwig
Executive Vice President,
Chief Financial Officer

Isadore Sharp
Chairman and
Chief Executive Officer

Barbara M. Talbott
Executive Vice President
Marketing

Kathleen Taylor
President
Chief Corporate Officer

John W. Young
Executive Vice President
Human Resources

Corporate Vice Presidents

Deborah Brown
Vice President
Human Resources,
North America

James Cardy
Senior Vice President,
Purchasing

David B. Crowl
Vice President, Sales

Mike Duwaji
Senior Vice President
Finance, Operations

Stuart Fearnley
Senior Vice President, Design
and Construction

Charles J. Ferraro
Senior Vice President,
Operations

Ivan Goh
Senior Vice President, Rooms

Susan J. Helstab
Senior Vice President
Corporate Communications

Barbara Henderson
Vice President
Taxation and Investor
Relations

Peter Hodgson
Vice President
Corporate Planning

Thomas Hubler
Vice President, Sales
North America

Michael Hwu
Vice President
Management Information
Systems

H. E. (Duffy) Keys
Senior Vice President
Business Development

Alfons E. Konrad
Senior Vice President
Food and Beverage

Nicholas Mutton
Senior Vice President
Operations

Roy A. Paul
Senior Vice President,
Development

Craig O. Reith
Vice President Finance

James C. (Jay) Riley
Vice President, Hotel Marketing

Jonathan Sicroff
Vice President
Sales and Marketing, Asia

Sandra Ward
Vice President
Human Resources,
International

Randolph Weisz
Senior Vice President
General Counsel

Regional Vice Presidents

Marcos Bekhit
Istanbul

Stan Bromley
San Francisco

J.P. Dosse
Shanghai

Ignacio Gomez
Prague

Thomas Gurtner
Hong Kong

Christopher Hunsburger
Washington, D.C.

Neil Jacobs
Singapore

Peter G. Martin
Seattle

Craig Reid
Dallas

John Stauss
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Toronto, Ontario
Canada M3C 2K8
Telephone: (416) 449-1750
FAX: (416) 441-4374
Web Site Address:
www.fourseasons.com

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Tuesday, May 30, 2000 in the Regency Ballroom, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, Canada

Stock Listings

The Toronto Stock Exchange
Stock Ticker Symbol: FSH
The New York Stock Exchange
Stock Ticker Symbol: FS

Dividend Information

11 cents per Limited Voting Share and 5.5 cents per Variable Multiple Voting Share per annum (post-split basis) paid semi-annually in January and July

Transfer Agent and Registrar

Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

The Bank of Nova Scotia
Trust Co. of New York
New York

Auditors

KPMG LLP

Shareholder Information

Barbara Henderson,
Vice President, Investor Relations
(416) 441-4329
e-mail: investors@fourseasons.com

Reservations Information

For reservations at Four Seasons Hotels and Resorts, please call toll-free:

(800) 268-6282 in Canada
(800) 332-3442 in the United States

Or visit our web site at www.fourseasons.com

For reservations at Regent International Hotels, please call toll-free: (800) 545-4000 in Canada and the United States


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